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PROCEEDINGS

OF THE

HOUSE OF COMMONS

SELECT STANDING COMMITTEE ON
BANKING AND COMMERCE

IN THE

HOUSE OF COMMONS

ON

HILL NO. 41, AN ACT RESPECTING
BANKS AND BANKING

1901-1902

REPORT OF THE SELECT STANDING COMMITTEE ON
BANKING AND COMMERCE
FINANCIAL CREDIT, ETC.

PRINTED BY THE GOVERNMENT OF CANADA



1902

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ORDER OF REFERENCE

HOUSE OF COMMONS,

MONDAY, February 12, 1923.

Resolved,—That the following members do compose the Select Standing Committee on Banking and Commerce:—

Messieurs

Baxter,	Grimmer,	Maybee,
Benoit,	Guthrie,	Mewburn,
Bird,	Hanson,	Milne,
Boivin,	Harris,	Mitchell,
Black, (<i>Yukon</i>),	Hatfield,	Morin,
Bristol,	Hodgins,	Papineau,
Cahill,	Hudson,	Porter,
Caldwell,	Hughes,	Power,
Cardin,	Humphrey,	Rankin,
Carmichael,	Irvine,	Reed,
Carruthers,	Jacobs,	Rhéaume,
Casgrain,	Jelliff,	Robb,
Chaplin,	Johnston (<i>Last Mountain</i>),	Robichaud,
Chevrier,	Kellner,	Robitaille,
Clark,	King (<i>Huron</i>),	Ryckman,
Clifford,	Ladner,	St. Père,
Coote,	Lafamme,	Sales,
Crerar,	Low,	Senn,
d'Anjou,	Macdonald (<i>Pictou</i>),	Shaw,
Desaulniers,	Mackinnon,	Speakman,
Drayton (Sir Henry),	Maclea (<i>Halifax</i>),	Spencer,
Duncan,	Maclea (<i>York</i>),	Stevens,
Elliott (<i>Dundas</i>),	Macphail (Miss),	Sinclair (<i>Queens, P.E.I.</i>),
Elliott (<i>Waterloo</i>),	McCrea,	Stork,
Fafard,	McKay,	Tobin,
Fielding,	McMaster,	Trahan,
Finn,	McMurray,	Vien,
Fortier,	McQuarrie,	Woods, and
German,	Malcolm,	Woodsworth.—89
Good,	Marler,	

And that the Quorum of the said Committee do consist of Twenty-one Members.

Attest.

W. B. NORTHRUP,

Clerk of the House.

13-14 GEORGE V, A. 1923

Ordered,—That the Select Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

Attest.

W. B. NORTHRUP,
Clerk of the House.

MONDAY, February 26, 1923.

Ordered,—That the following Resolution be referred to the said Committee:—

“That, in the opinion of this House, the question of appointing a representative Parliamentary Committee to investigate the basis, the function and the control of financial credit, and the relation of credit to the industrial problems, be referred to the Select Standing Committee on Banking and Commerce.”

Attest.

W. B. NORTHRUP,
Clerk of the House.

FRIDAY, March 9, 1923.

Ordered,—That in accordance with the recommendations contained in the Second Report of the Select Standing Committee on Banking and Commerce, the said Committee be given power to investigate the basis, the function and the control of financial credit, and the relation of credit to the industrial problems.

Attest.

W. B. NORTHRUP,
Clerk of the House.

FRIDAY, March 9, 1923.

Ordered,—That the said Committee be given leave to sit while the House is in session, and to have their proceedings printed from day to day for the use of the members of the Committee, when deemed advisable, and that Rule 74 be suspended in reference thereto.

Attest.

W. B. NORTHRUP,
Clerk of the House.

TUESDAY, March 20, 1923.

Ordered,—That the following Bill be referred to the said Committee:—
Bill No. 83, An Act respecting Banks and Banking.

Attest.

W. B. NORTHRUP,
Clerk of the House.

REPORTS

OF THE

SELECT STANDING COMMITTEE ON BANKING AND COMMERCE

(RESPECTING THE REFERENCE)

FIRST REPORT

HOUSE OF COMMONS, March 9, 1923.

The Select Standing Committee on Banking and Commerce beg leave to present the First Report of the said Committee, which is as follows:—

Your Committee recommend that they be given leave to sit while the House is in session, and to have their proceedings printed from day to day for the use of the Members of the Committee, when deemed advisable, and that Rule 74 be suspended in reference thereto.

All which is respectfully submitted.

A. K. MACLEAN,

Chairman.

SECOND REPORT

HOUSE OF COMMONS, March 9, 1923.

The Select Standing Committee on Banking and Commerce beg leave to present the Second Report of the said Committee, which is as follows:—

Your Committee have had under consideration the resolution respecting the basis of credit referred to them on the 26th of February last, and which reads as follows:—

“That in the opinion of this House, the question of appointing a representative parliamentary committee to investigate the basis, the function and the control of financial credit, and the relation of credit to the industrial problems, be referred to the Select Standing Committee on Banking and Commerce.”

It appears to Your Committee that the said resolution does not quite correctly represent the intention of the House in making reference to them, but that such intention was that Your Committee should “investigate the basis, the function and the control of financial credit, and the relation of credit to the industrial problems.”

Your Committee, therefore, respectfully request that their impression in this regard, if well founded, may be confirmed by your Honourable House, and their order of reference amended accordingly.

All which is respectfully submitted.

A. K. MACLEAN,

Chairman.

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SEVENTH REPORT

HOUSE OF COMMONS, June 14, 1923.

The Select Standing Committee on Banking and Commerce beg leave to present the Seventh Report of the said Committee, which is as follows:—

Your Committee have had under consideration Bill No. 83, An Act respecting Banks and Banking, and have agreed to report the same with amendments.

Your Committee also submit herewith their minutes of proceedings and evidence, and recommend that the same be printed in blue-book form and as an appendix to the Journals of the House.

All which is respectfully submitted.

A. K. MACLEAN,
Chairman.

EIGHTH REPORT

HOUSE OF COMMONS, June 20, 1923.

The Select Standing Committee on Banking and Commerce beg leave to present the Eighth Report of the said Committee, which is as follows:—

Your Committee, in obedience to the Order of the House of March 9, 1923, have had under consideration the question of investigating the basis, the function and the control of financial credit, and the relation of credit to the industrial problems; and in connection therewith have held several meetings and examined the following witnesses, viz:—Messrs. Bevington, Douglas, Fisher, and others, but have not been able to complete their inquiry into the matters covered by the Order of Reference.

Your Committee respectfully recommend that a further reference be made at the next session of Parliament on the matters referred to in the said Order of Reference.

Your Committee beg to submit printed copy of their proceedings on such reference, and all documents submitted and not contained in the proceedings.

All which is respectfully submitted.

A. K. MACLEAN,
Chairman.

MINUTES OF PROCEEDINGS

THURSDAY, March 8, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messieurs

Benoit,	Hanson,	Robichaud,
Black (<i>Yukon</i>),	Hudson,	Robitaille,
Cahill,	Humphrey,	Ryckman,
Carmichael,	Irvine,	St. Père,
Carruthers,	Jelliff,	Shaw,
Casgrain,	Johnston (<i>Last Mountain</i>),	Sinclair (<i>Queens, P.E.I.</i>),
Chaplin,	Kellner,	Speakman,
Chevrier,	Ladner,	Stevens,
Coote,	Mackinnon,	Stork,
Desaulniers,	Macphail (Miss),	Tobin,
Drayton (Sir Henry),	McQuarrie,	Power,
Elliott (<i>Dundas</i>),	Marler,	Woods,
Elliott (<i>Waterloo</i>),	Maybee,	Woodsworth.
Fafard,	Papineau,	
Fielding,	Reed,	

APPENDIX No. 2

After the consideration of the Private Bills on the Order Paper—

Mr. Irvine made a brief statement indicating what the scope of the enquiry regarding the basis, etc., of credit should be. A general discussion followed.

The Chairman suggested that a sub-committee composed of Messrs. Irvine, Speakman, Drayton (Sir Henry), and Maclean (Halifax), be appointed to consider what witnesses should be called and to what extent the inquiry should go, the Chairman to confer with the Special Committee on Agricultural Conditions, so that overlapping will not occur. Agreed to.

The Committee then adjourned.

TUESDAY, March 13, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messieurs

Baxter,	Good,	Morin,
Benoit,	Hanson,	Power,
Bird,	Hudson,	Reed,
Carmichael,	Irvine,	Robichaud,
Chaplin,	Johnston (<i>Last Mountain</i>),	Shaw,
Clark,	King (<i>Huron</i>),	Speakman,
Coote,	Ladner,	Stevens,
Drayton (Sir Henry),	Mackinnon,	Woods,
Elliott (<i>Dundas</i>),	Maclean (<i>York</i>),	Woodsworth.
Elliott (<i>Waterloo</i>),	Macphail (Miss),	
Fafard,	Mitchell,	

After the consideration of the Private Bills on the Order Paper—

The Chairman submitted the following from the sub-committee appointed at the previous meeting of the Committee:—

“Your sub-committee upon Mr. Irvine’s resolution on the Committee’s order paper, convened on Friday last, together with Mr. McMaster, Chairman of the Special Committee appointed to inquire into agricultural conditions, one of the subjects coming within the purview of Mr. Irvine’s resolution.

“Your Committee, after consideration, are unanimously of the opinion that it is expedient that any parliamentary inquiry into the subject of rural credits should be left to the Special Committee on Agricultural conditions, and that the Committee on Banking and Commerce should abstain so far as is possible from any inquiry into this phase of the question of financial credits.

“Your Committee also considered the matter of what witnesses might be called before your Committee in connection with Mr. Irvine’s resolution. Mr. Irvine informed the Committee that his needs would be satisfied with the appearance of four witnesses, namely: Major Douglas, Henry Ford, H. S. Ross, of Montreal, and Mr. Bevington, of Alberta.

“Your Committee agree that the two last-named should be readily afforded to Mr. Irvine. The first two mentioned persons are beyond the jurisdiction of your Committee, and at the moment cannot report definitely whether such persons will be available to your Committee.

“Later, further witnesses should perhaps be called to express opinions to the Committee upon the evidence elicited from the earlier witnesses, but your Committee feel that this can best be determined later.

“A. K. MACLEAN,
Chairman.”

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Report of the sub-committee agreed to.

The Chairman suggested that Mr. Mitchell be appointed Deputy Chairman to preside over the meetings in the unavoidable absence of the former.

Agreed to.

The Committee then adjourned to the call of the Chair.

THURSDAY, March 22, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (*Halifax*) in the Chair, and Messrs. Carmichael, Carruthers, Casgrain, Coote, Drayton (Sir Henry), Elliott (*Waterloo*), Fafard, Fielding, Good, Hanson, Hodgins, Hudson, Hughes, Humphrey, Irvine, King (*Huron*), Mackinnon, Maclean (*York*), Mitchell, Morin, Ryckman, Speakman, Spencer, Woods, and Woodsworth.

The Order for the consideration of Bill No. 83, An Act respecting Banks and Banking, being called,—

The Chairman submitted the following Resolutions as a mode of procedure for the Committee, viz.:—

1. Non-contentious sections may be first disposed of. Any clause to which there is objection stands on the request of a Member for future consideration. Reconsideration shall be permissible on notice of motion.

2. Important amendments introduced in Committee by Members may be received as Notices of Motion to be discussed and not voted upon until a subsequent meeting of Committee. Members of the Committee shall be furnished with copies of such amendments.

Debated.

Mr. Maclean (*York*) moved,—That the first meeting of the Committee after the Easter adjournment be devoted to a general discussion of the principles in the Bill No. 83, An Act respecting Banks and Banking.

Which motion was negatived by a standing vote: Yeas, 9; Nays, 12.

The two Resolutions previously submitted by the Chairman as a mode of procedure, were further considered and adopted by the Committee.

The question being raised as to the consideration of Mr. Irvine's Resolution *re* Basis of Credit, etc., it was

Resolved, That consideration of the said Resolution be taken up by the Committee at their first meeting after the Easter adjournment and that Mr. George Bevington, of Alberta, and Mr. H. S. Ross, of Montreal, be called for examination in reference thereto.

On motion of Mr. Hanson, it was

Resolved, That a Sub-Committee composed of Sir Henry Drayton and Messrs. Irvine, Mitchell, Speakman and Vien, be appointed to prepare and report a list of persons to be requested to appear before the Committee and give such information as may be required.

The Chairman submitted the following papers, which were marked as

Exhibit No. 1.—Statement showing, in the case of each chartered bank, capital authorized, capital subscribed, capital paid up and amount of rest or reserve fund as of January 31, 1923. (See page 88.)

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Exhibit No. 2.—Rest or Reserve Fund of the Banks—How Derived. (See page 88.)

Exhibit No. 3.—Return of the chartered Banks of the Dominion of Canada, February 28, 1923, made to the Minister of Finance in conformity with section 112 of the Bank Act of 1913. (See between pp. 88 and 89.)

The Committee then adjourned to the call of the Chair.

TUESDAY, March 27, 1923.

The Committee met at 11 o'clock a.m.

Present:—Mr. Maclean (Halifax) in the Chair, and Messrs. Benoit, Carmichael, Carruthers, Chaplin, Clark, Coote, Drayton (Sir Henry), Duncan, Elliott (Waterloo), Fafard, Fortier, Hanson, Hodgins, Johnson, King (Huron), Maclean (York), Maybee, Mitchell, Reed, Ryckman, Senn, Spencer, and Woodsworth.

After the consideration of a Private Bill on the Order Paper,—

Mr. Spencer, having informed the Committee that Mr. Ross, of Montreal, would be unable to attend the meetings of the Committee to give evidence respecting Mr. Irvine's Resolution on the Basis of Credit, etc., moved that Mr. Neal East, of Vermilion, Alberta, be requested to appear before the Committee on the 11th April next, in the stead of Mr. Ross.

Which was agreed to.

The Chairman, referring to the question of witnesses to appear before the Committee, requested the Members having any persons to suggest as such, to be pleased to submit their names to the sub-committee appointed on March 22, to prepare and report a list of persons required to appear before the Committee.

The Committee then adjourned till Wednesday, April 11.

WEDNESDAY, April 11, 1923.

The Committee met at 11 o'clock a.m.

Present:—Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Carruthers, Casgrain, Chaplin, Chevrier, Clark, Coote, Drayton (Sir Henry), Fielding, Garland (Bow River) Good, Guthrie, Hanson, Hodgins, Hughes, Irvine, Jacobs, Jelliff, Johnston, Kellner, Ladner, Mackinnon, Maclean (York), Macphail (Miss), McQuarrie, Malcolm, Marler, Maybee, Mitchell, Morin, Papineau, Rankin, Robitaille, Ryckman, Spencer, Tobin, Trahan, Woods, and Woodsworth.

The Chairman requested the members of the Committee having amendments to propose to any sections of the Bank Act, to have the same handed to the Clerk of the Committee as Notices of Motions to be inserted in the Minutes of Proceedings for future consideration.

A memorandum of Bank Mergers, from 1867 to date, was submitted by the Department of Finance, and marked as *Exhibit No. 4*. (See page 89.)

The Committee then proceeded to the further consideration of Mr. Irvine's Resolution to investigate the basis, the function and the control of financial credit, etc.

Mr. George Bevington, farmer, of Alberta, was called and requested by the Chairman to make a statement of his arguments on the subject matter before the Committee.

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During his statement, Mr. Bevington submitted the following charts, which were marked as

Exhibit No. 5.—Statistics of gold holdings, note issue, bank deposits and Dominion, Provincial and Municipal liabilities in 1913. (See page 90.)

Exhibit No. 6.—Statistics of gold holdings, note issue, bank deposits and public (Dominion, Provincial and Municipal) liabilities in Canada, in 1923. (See page 91.)

Mr. Bevington's evidence was here discontinued to be resumed this afternoon.

The Chairman then requested Mr. Mitchell to present the report of the sub-committee appointed at a previous meeting to prepare a list of persons to appear before the Committee and give such information as may be required. Which report was read as follows:

The sub-committee appointed for the purpose of considering the names of the witnesses who should be summoned before your Committee, beg to report that, at a meeting yesterday it was decided to recommend to your Committee that Sir Frederick Williams-Taylor, General Manager of the Bank of Montreal and President of the Canadian Bankers' Association, Montreal; Sir Edmund Walker, President of the Canadian Bank of Commerce, Toronto; C. E. Neil, General Manager of the Royal Bank, Montreal; Beaudry Leman, General Manager of the Bank of Hochelaga, Montreal; H. V. Powell, General Manager, Weyburn Bank, Saskatchewan; Professor Swanson, Saskatoon University, and J. P. Kennedy, ex-private banker, Saskatoon, be summoned to appear before the Committee at such times as the Chairman of your Committee in his discretion deems advisable.

And your sub-committee further report that, as other names are suggested to it and considered they will report further to your Committee.

W. J. MITCHELL,

Chairman.

The foregoing report was agreed to.

The Chairman stated that a representative of the Bradford (England) Chamber of Commerce would be heard by the Committee on Friday next, on the provisions of section 88 of the Bank Act.

At 1 o'clock, the Committee took recess until 4 o'clock p.m.

AFTERNOON SITTING

WEDNESDAY, April 11, 1923.

The Committee resumed at four o'clock p.m.

Present:—Mr. Maclean (Halifax) in the Chair, and Messrs. Bird, Cahill, Caldwell, Cardin, Casgrain, Clark, Coote, Drayton (Sir Henry), Good, Hanson, Harris, Hudson, Hughes, Humphrey, Irvine, Jelliff, Ladner, Mackinnon, Maclean (York), Macphail (Miss), McCrea, Mitchell, Morin, Reed, Ryckman, Sales, Speakman, Spencer, Stork, and Woodsworth.

Mr. George Bevington continued his statement on Mr. Irvine's Resolution concerning the basis of credit, etc., and was examined by Members of the Committee.

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At 6 o'clock the Committee adjourned until four o'clock p.m. to-morrow (Thursday).

THURSDAY, April 12, 1923.

The Committee met at four o'clock p.m.

Present: Mr. Maclean (Halifax) in the Chair, and
Messieurs

Benoit,	Humphrey,	Morin,
Bird,	Irvine,	Rankin,
Cahill,	Jacobs,	Reed,
Caldwell,	Jelliff,	Robb,
Carmichael,	Johnston,	Robichaud,
Carruthers,	Kellner,	Ryckman,
Clark,	Ladner,	Senn,
Coote,	Macdonald (<i>Pictou</i>),	Shaw,
Drayton (Sir Henry),	Mackinnon,	Speakman,
Duncan,	Maclean (<i>York</i>),	Spencer,
Elliott (<i>Dundas</i>),	Macphail (Miss),	Stevens,
Fafard,	Malcolm,	Stork,
Good,	Marler,	Vien,
Hanson,	Maybee,	Woods, and
Harris,	Mewburn,	Woodsworth.
Hodgins,	Milne,	
Hughes,	Mitchell,	

The Committee resumed the consideration of Mr. Irvine's Resolution on the basis of credit, etc.

Mr. Bevington continued his address on the same, and was further examined by Members of the Committee.

During his examination, reference was made to the Report of the Commissioner on Banking and Credit with respect to the Industry of Agriculture in the province of Alberta, 1922, and the question of inserting the same in the Proceedings of the Committee as an exhibit was left over for future consideration.

Reference being also made to an Act passed during the last session of the American Congress "To provide additional credit facilities for the agricultural and livestock industries of the United States; to amend the Federal Farm Loan Act; to amend the Federal Reserve Act; and for other purposes."

It was, on motion of Mr. Maclean (*York*),—

Resolved, that the Chairman of the Committee do obtain a number of copies of the said Act for the use of the members of the House of Commons.

At six o'clock the Committee adjourned until 11 o'clock to-morrow (Friday), for the consideration of Bill No. 83. An Act respecting Banks and Banking, and to hear a representative of the Bradford (England) Chamber of Commerce on section 88 of the said Bill.

FRIDAY, April 13, 1923.

The Committee met at 11 o'clock, a.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messieurs Benoit, Bird, Carmichael, Carruthers, Casgrain, Chaplin, Clark, Coote, Drayton (Sir Henry), Duncan, Elliott (*Dundas*), Fielding, Hodgins, Hughes, Irvine, Jacobs, Jelliff, Kellner, Ladner, Mackinnon, Maclean (*York*),

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Macphail (Miss), McMaster, Marler, Mewburn, Mitchell, Morin, Rankin, Reed, Robitaille, Ryckman, St. Père, Senn, Spencer, Stevens, Vien, Woods, Woods-worth.

The Committee proceeded to the consideration of Bill No. 83, An Act respecting Banks and Banking.

Mr. Ladner submitted a proposed amendment to section 11 of the Bill. (Ordered to be printed as a notice of motion.)

Section 1 read and adopted.

By leave of the Committee.

Sections 86, 87 and 88 were taken up, and the following parties appeared at their own request and were given leave to address the Committee, viz:—

H. T. Tulloch, of the Bradford (England) Chamber of Commerce, and John H. Shaw, of the British Agents Association of Montreal.

In the course of the examination of the above named witnesses, the Chairman stated that Aimé Geoffrion, Esq., K.C., of Montreal, was attending the meetings of the Committee on behalf of the Canadian Bankers' Association.

Thereupon Mr. Stevens moved that any representatives of the chartered banks be given leave to examine witnesses appearing before the Committee.

Resolved, that the foregoing motion do stand for further consideration.

At 1 o'clock, the Committee took recess until 4 o'clock, p.m., to again hear Mr. Bevington and Mr. East, on the basis of credit, etc.

AFTERNOON SITTING

4 o'clock, p.m.

The Committee resumed consideration of Mr. Irvine's Resolution on basis of credit, etc.

Mr. Neal East, Farmer, of Vermilion, Alberta, was called to make his statement thereon, and was examined by members of the Committee.

In the course of his address, the witness submitted the following:

Exhibit No. 7.—Chart showing expansion and contraction of credit from 1913 to 1921 by banks (thousands omitted). [See page .]

Mr. H. B. McKenzie, ex-banker, being present, was called and examined on some points of the evidence of the previous witness.

The Committee then adjourned until 11 o'clock on Monday next, to resume the examination of Messrs. Bevington and East.

NOTICE OF MOTION

By Mr. Ladner—To amend section 11 by inserting after line two thereof the following:—

A provisional director shall not be eligible to act as such unless he be a *bona fide* subscriber of stock of the bank for and on his own behalf, to become the absolute and sole owner in his individual right of such stock, and not as trustee or in the right of another, on which subscription not less than—

(a) three thousand dollars have been paid up, when the paid-up capital stock of the bank is one million dollars or less;

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- (b) four thousand dollars have been paid up, when the paid-up capital stock of the bank is over one million dollars and does not exceed three million dollars;
- (c) five thousand dollars have been paid up, when the paid-up capital stock of the bank exceeds three million dollars.

MONDAY, April 16, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messieurs: Bird, Black (Yukon), Chaplin, Clark, Coote, Drayton (Sir Henry), Elliott (Dundas), Fielding, Good, Hanson, Hodgins, Hughes, Irvine, Jelliff, Johnston (Last Mountain), Ladner, Mackinnon, Macphail (Miss), Marler, Power, Robb, Robichaud, Senn, Speakman, Spencer, Stevens, Woods, Woodsworth.

The Committee proceeded to the further consideration of Bill No. 83, an Act respecting Banks and Banking.

Section 2, paragraphs (a) and (b) read and adopted.

Paragraph (c) read and amended by striking out all the words after 'Whatever,' on lines 5 and 6 thereof.

Paragraphs (d), (e), (f), (g), (h), (i), (j), (k) (l) read and adopted.

Paragraph (m) read and amended by inserting the word "Piling" after 'pulpwood,' the word "mining" after 'poles' on line 2, and by inserting the word "all" before 'other' on lines 2 and 3.

Paragraphs (n), (o), and (p), read and adopted.

Sections 3 and 4 read and adopted.

Sections 5 and 6 read and stand for further consideration.

Sections 7, 8 and 9 read and adopted.

Sections 10 and 11 read and stand for further consideration.

Section 12 read and adopted.

Section 13 stands for further consideration.

Sections 14, 15, 16 and 17 read and adopted.

Section 18, paragraphs (a), (b), (d), (e), (f), (g), (h) and subsections 2 and 4 read and adopted. Paragraph (c) and subsection 3 read and stand for further consideration.

Sections 19, 20 and 21 read and adopted.

Sections 22 and 23 stand for further consideration.

Sections 24, 25, 26 and 27 read and adopted.

Section 28, subsections 1, 2 and 3 read and adopted. Subsection 4 stands for further consideration.

Sections 29, 30, 31, 32, and 33 read and adopted.

Section 34 read and adopted, with the exception of paragraph (d), which stands for further consideration.

At 1 o'clock, the Committee took recess until four o'clock p.m.

AFTERNOON SITTING

Four o'clock p.m.

The Committee resumed consideration of the non-contentious sections of Bill No. 83, respecting Banks and Banking.

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Section 35 read and adopted with the exception of subsection 8 thereof, which stands for further consideration.

Sections 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52 and 53 read and adopted.

Sections 54, 55 and 56 stand for further consideration.

Sections 56a, 57, and 58 read and adopted.

Sections 59, 60, 61 and 62 stand for further consideration.

Sections 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74 and 75 read and adopted.

Section 76 stands for further consideration.

Section 77 read and adopted with the exception of subsection 4 thereof, which stands for further consideration.

Section 78 read and adopted.

Sections 79 and 80 stand for further consideration.

Sections 81, 82 and 83 read and adopted.

Section 84 read and stands for further consideration.

Sections 84a and 85 read and adopted.

Sections 86, 87, 88, 88a and 89 stand for further consideration.

Section 90 read and adopted.

Sections 91, 92, 93 and 94 stand for further consideration.

Section 95 read and adopted.

Section 96 stands for further consideration.

Resolved, that on Wednesday next, the Committee do resume the examination of Messrs. Bevington and East on Mr. Irvine's Resolution, and if time allows after such examination, do resume the consideration of the non-contentious sections of Bill No. 83.

Further resolved, that the examination of Sir Frederick Williams-Taylor, President of the Canadian Bankers' Association, on Bill No. 83, respecting Banks and Banking, be proceeded with on Thursday next, 19th instant.

The Committee then adjourned till Wednesday next, 18th instant, at 11 o'clock a.m.

WEDNESDAY, April 18, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messieurs Bird, Black (Yukon), Caldwell, Cardin, Carmichael, Carruthers, Chaplin, Clifford, Coote, Crerar, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fielding, Fortier, German, Good, Guthrie, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Mackinnon, Maclean (York), Macphail (Miss), Marler, Maybee, Mitchell, Morin, Papineau, Reed, Ryckman, St. Père, Senn, Shaw, Speakman, Spencer, Stevens, Vien, Woodsworth.

Mr. Fielding read a telegram from Sir Edmund Walker repudiating a certain statement alleged to have been made by him in regard to the double liability of bank shareholders.

Messrs. Woodsworth, Hughes and Hanson gave notice of amendments to be proposed to certain sections of Bill No. 83, respecting Banks and Banking. (See pages 15-17.)

APPENDIX No. 2

The Committee then proceeded to the further consideration of Mr. Irvine's resolution on basis of credit, etc.

Mr. Bevington continued his statement, and was further examined by members of the Committee.

The Chairman stated that Sir Frederick Williams-Taylor, general manager of the Bank of Montreal, would appear before the Committee to-morrow (Thursday); Sir John Aird, general manager of the Bank of Commerce, Toronto, and Dr. Adam Shortt, Ottawa, on Friday next; Major Douglas, England, on Tuesday next, April 24; and Mr. Powell, general manager of the Weyburn Bank, Saskatchewan, on Friday, April 27.

At one o'clock, the Committee took recess until 4 o'clock p.m., to then resume the examination of Mr. Bevington.

AFTERNOON SITTING

Four o'clock p.m.

Mr. Bevington's examination was resumed, and suspended for the time being.

Mr. Mitchell for the sub-committee submitted the following report:—

Wednesday, April 18, 1923.

The sub-committee appointed for the purpose of considering the names of the witnesses who should be summoned before your Committee, beg to report that at a meeting this day it was decided to recommend to your Committee that Mr. A. M. Maclean, Oak Hall, St. John, N.B., a representative of the Canadian Federation of Insurance Agents; and Prof. Irving Fisher, of Yale University, be requested to appear before the Committee at such times as the Chairman of your Committee in his discretion deems advisable.

W. MITCHELL,
Chairman.

The foregoing report was agreed to.

The Committee adjourned till to-morrow, at 11 o'clock a.m.

NOTICES OF MOTIONS

Proposed amendment by Mr. Woodsworth.

That section five of Bill 83 be amended by striking out the words "thirty-three" in the fourth and eighteenth lines thereof and substituting the words "twenty-eight" therefor.

Proposed amendment by Mr. Hughes.

That section one hundred and twenty-five of the Act be amended by adding at the end of subsection one thereof the following: "Provided, however, that any shareholder who is a director, general manager, manager or other executive officer of the bank shall be liable to an amount equal to three times the par value of the shares held by him in addition to any amount not paid up on such shares."

Proposed amendments by Mr. Hanson.

Moved by Mr. Hanson that Bill 83 be amended in the following particulars, viz:—

1. That subsection two of section 54 be amended by striking out the word "and," the first word in line two on page 23, and substituting therefor the number "(3)" as a paragraph number, and by changing the paragraph numbers 3, 4 and 5 to 4, 5 and 6, respectively.

2. That paragraph (k) of subsection (3) be amended by adding the words "and other securities of a sufficient marketable value to cover" at the end thereof.

3. That paragraph (1) of subsection (3) be amended by adding the words "and other securities of a sufficient marketable value to cover" at the end thereof.

4. That paragraph (m) of subsection (3) be amended by striking out the word "current" in the first line thereof and adding the words "after making full provision for all bad and doubtful debts" at the end thereof.

5. That paragraph (n) of subsection (3) be amended by striking out the word "current" in the first line thereof, and adding the words "after making full provision for all bad and doubtful debts" at the end thereof.

6. That paragraph (q) of subsection (3) be amended by striking out the words "overdue debts."

7. That items numbered 13 and 14 under caption "Assets" of schedule to the Act be amended by adding the words "and other securities of a sufficient marketable value to cover" at the end of each item, respectively.

8. That items numbered 15 and 16 under caption "Assets" of the said schedule be each amended, respectively, by striking out the word "current" and adding the words "after making full provision for all bad and doubtful debts" at the end thereof.

9. That item numbered 20 under caption "Assets" of the said schedule be struck out.

10. That section 54 of Bill 83 be amended by adding thereto as subsection 3A the following:—

"3A. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement a further statement showing the assets and liabilities of such corporation, and the amount of the capital stock of such corporation not wholly owned by the bank, and the value placed upon the bank's interest in the corporation."

Proposed amendment by Mr. Hanson.

Moved by Mr. Hanson that Bill 83 be amended by striking out subsection five of section 113 thereof.

Proposed amendment by Mr. Hanson.

Moved by Mr. Hanson that subsection 6 of section 56 of Bill 83 be amended by striking out all the words commencing with the word "No" in the fourth line thereof down to the end of the said subsection.

Proposed amendment by Mr. Hanson.

Moved by Mr. Hanson that subsection three of section 153 of Bill 83 be struck out.

Proposed amendment by Mr. Hanson.

Moved by Mr. Hanson that subsection four of section 113 of Bill 83 be amended by striking out all the words commencing with "and" in the ninth line thereof to the end of the said subsection.

APPENDIX No. 2

Proposed amendment by Mr. Hanson.

Moved by Mr. Hanson that subsection 6 of section 113 of Bill 83 be struck out.

THURSDAY, April 19, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messieurs: Benoit, Black (Yukon), Cahill, Cardin, Carmichael, Casgrain, Chaplin, Clark, Coote, Drayton (Sir Henry), Elliott (Dundas), Fielding, German, Good, Guthrie, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jeliff, Johnston (Last Mountain), Kellner, Ladner, Low, Macdonald (Pictou), Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, McMaster, McQuarrie, Malcolm, Marler, Maybee, Mitchell, Morin, Papineau, Reed, Ryckman, Shaw, Speakman, Spencer, Stevens, Vien, Woods, Woodsworth.

Mr. Maclean (York) referred to an editorial of the Winnipeg Free Press of April 2 giving a summary of the Act passed during the last session of the American Congress providing additional credit facilities to agricultural industries. (*Printed in the evidence.*)

The Chairman read a letter from G. E. Blackburn, president of the British Agents' Association of Canada, suggesting certain amendments to section 89 of Bill No. 83. (*Printed in the evidence.*)

The Committee then proceeded to the further consideration of Bill No. 83, An Act respecting Banks and Banking.

Sir Frederick Williams-Taylor, general manager of the Bank of Montreal, and president of the Canadian Bankers' Association, was called and allowed to read without interruption a general statement on the Bank Act, and was then examined by members of the Committee.

At 1 o'clock the Committee took recess until 4.15 o'clock p.m.

AFTERNOON SITTING

4.15 o'clock p.m.

The examination of Sir Frederick Williams-Taylor was continued.

Mr. Ladner stated that he proposed to move at some later day the establishment of a Federal Reserve Bank for Canada and submitted to the Committee a written elaboration of his proposal, which was held over for future consideration.

At six o'clock, the Committee adjourned until to-morrow (Friday), at 11 o'clock a.m.

FRIDAY, April 20, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (Halifax) in the Chair, and

Messieurs: Benoit, Bird, Black (Yukon), Cahill, Caldwell, Cardin, Carmichael, Carruthers, Casgrain, Chaplin, Clark, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fafard, Fielding, Finn, Good, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jeliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Laflamme, Mackinnon, Maclean

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(Halifax), Macphail (Miss), McCrea, McQuarrie, Maybee, Morin, Papineau, Reed, Robitaille, Ryckman, St. Père, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Trahan, Power, Woods, Woodsworth.

Mr. Hanson submitted an amendment to section 84 of Bill No. 83. ((*See end of this day's proceedings.*)

Sir Frederick Williams-Taylor was recalled and further examined by members of the Committee. His examination to be continued at some future date to be determined later.

The paper, filed yesterday by Mr. Ladner, was ordered to be printed and marked as,—

Exhibit No. 8.—Proposal for a Federal Reserve Bank of Canada. (*See page 93.*)

At one o'clock, the Committee took recess until four o'clock this day.

AFTERNOON SITTING

4 o'clock p.m.

Sir John Aird, general manager, Bank of Commerce, Toronto, and vice-president of the Canadian Bankers' Association, was called, addressed the Committee, and was examined on both Mr. Irvine's Resolution and on Bill No. 83.

Mr. Ladner submitted the following papers, which were marked and ordered to be printed as,—

Exhibit No. 9.—Banks' Liabilities to the Public as at 30th December, 1922, according to return in *Gazette* of 30th December, 1922. (*See page 98.*)

Exhibit No. 10.—Liquid Assets at end of year 1922. (*See page 98.*)

Exhibit No. 11.—Statement of capital, reserves, etc., of chartered banks. (*See page 99.*)

Exhibit No. 12.—Memorandum of Gold and Dominion Notes, market value of property, etc. (*See page 100.*)

At six o'clock, the Committee took recess until 8.30 p.m. this day.

EVENING SITTING

8.30 o'clock p.m.

Sir John Aird's statement and examination were continued and concluded.

The Chairman stated that the next meeting would be devoted to the further consideration of the non-contentious sections of Bill No. 83.

The Committee adjourned until Monday next, April 23, at 11 o'clock a.m.

NOTICE OF MOTION

By Mr. Hanson—That Section 84 of Bill 83 be amended by adding thereto the following words:—

"Provided that any security given in respect of a loan by a bank on standing timber shall be null and void as against subsequent purchasers, creditors or mortgages without a notice thereof, unless the instrument securing such loan is registered against the land upon which is situate such timber, in the land registry office of the registry district in which such land is situate and such instrument shall be subject to all the applicable conditions of registry pertaining to the registration of mortgages or charges upon lands within the province in which such land is situate."

APPENDIX No. 2

MONDAY, April 23, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messieurs: Black (Yukon), Cahill, Carmichael, Carruthers, Chaplin, Coote, Drayton (Sir Henry), Elliott (Dundas), Fafard, Fielding, Fortier, German, Good, Hanson, Hodgins, Hughes, Humphrey, Irvine, Jelliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Mackinnon, Maclean (Halifax), Mewburn, Rankin, Reed, Shaw, Speakman, Spencer, Stevens.

Notice of proposed amendments to certain sections of Bill No. 83 were given by Mr. Carmichael and by Mr. Ladner. (See end of these proceedings.)

The Committee proceeded to the further consideration of non-contentious sections of Bill No. 83, an Act respecting Banks and Banking.

Section 96 reconsidered and subsections 1, 2 and 3 read and adopted. Subsection 4 stands for further consideration.

Sections 97, 98, 99, 100, 101 and 102 read and adopted.

Sections 103 and 104 read and adopted subject to reconsideration.

Sections 105, 106, 107, 108, 109, 110 and 111 read and adopted.

Sections 112 and 113 stand for further consideration.

Section 114 read and adopted, with subsection subject to reconsideration.

Sections 115, 116, 117, 118, 119, 120, 121, 122, 123 and 124 read and adopted.

Section 125 stands for further consideration.

Sections 126, 127, 128 and 129 read and adopted.

Section 130 stands for further consideration.

Sections 131, 131a, 131b, 132, 133 and 134 read and adopted.

Section 60 further considered and adopted.

Sections 135, 136, 137, 138, 139, 140 and 141a read and adopted.

At one o'clock, the Committee took recess until 4 o'clock p.m.

AFTERNOON SITTING

Four o'clock p.m.

The Committee resumed consideration of the non-contentious sections of Bill No. 83.

Sections 141, 159, 142, 143, 144, and 145 read and adopted.

Section 146, paragraphs (a), (b) and (c) read and adopted. Paragraphs (d) and (e) stand for further consideration.

Sections 146a, 146b, 147 and 147a read and adopted.

Section 147b stands for further consideration.

Sections 147c, 148, 149 and 150 read and adopted.

Section 151, subsection 1 read and referred to the law officers. Subsection 2 read and adopted.

Section 152 read and adopted.

Section 153 stands for further consideration.

Sections 154a, 155 and 156 read and adopted.

Sections 156a and 156b stand for further consideration.

Sections 157, 158 and 160 read and adopted.

Section 61 further considered, and subsection 1, paragraphs (a) and (b) and subsection 2 again read and adopted. The remaining subsections stand for further consideration.

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Mr. H. V. Powell, general manager of the Weyburn Security Bank, Saskatchewan, was then introduced to the Committee by the Chairman, stating that Mr. Powell would be the first witness to-morrow morning, and Major Douglas, of England, the witness for the afternoon sitting.

The Committee then adjourned until 11 o'clock a.m. to-morrow (Tuesday).

NOTICES OF MOTIONS

Proposed Amendments to Bill No. 83

By A. M. Carmichael.—That section 91 be amended in the following particulars:—

That subsection one be amended by striking out all the words commencing with "but" in the fourth line down to the end of the subsection and by substituting therefor the following: "but no higher rate of interest shall be chargeable by the bank, and the said rate of interest shall be reduced to the rate of seven per centum per annum from the date of judgment in any suit, action or other proceeding for the recovery of the amount due".

By adding as subsection (1A) the following:—

"(1A). In any suit, action or other proceeding concerning a bank loan wherein it is alleged that the amount of interest paid or claimed exceeds the rate of seven per centum per annum, the court may re-open the transaction and take an account between the parties, and may, notwithstanding any statement or settlement of account, or any contract purporting to close previous dealings and create a new obligation, re-open any account already taken between the parties, and relieve the person under obligation to pay from payment of any sum in excess of the said rate of interest; and if any such excess has been paid, or allowed in account, by the debtor, may order the bank to repay it, and may set aside, either wholly or in part, or revise, or alter, any security given in respect of the transaction."

By Mr. Ladner,—That section thirteen of Bill No. 83 be amended by inserting after the words "weeks" in the tenth line thereof the following words, "and by notice with postage prepaid mailed to the last known address of each subscriber at least ten days prior to the date of such meeting."

TUESDAY, April 24, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (Halifax), in the Chair, and

Messieurs: Baxter, Bird, Cahill, Caldwell, Carmichael, Casgrain, Chaplin, Clark, Coote, Drayton (Sir Henry), Elliott (Dundas), Fafard, Fielding, Good, Hanson, Harris, Hodgins, Hughes, Irvine, Jacobs, Jeliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Macdonald (Pictou), Mackinnon, Maclean (Halifax), Maclean (York), Macphail (Miss), McCrea, McMaster, McQuarrie, Marler, Maybee, Mewburn, Papineau, Reed, Ryckman, St. Père, Sales, Shaw, Speakman, Spencer, Stevens, Tobin, Woods, and Woodsworth.

The Chairman stated that copies of the Act passed by the American Congress at its last session respecting rural credits had been received from Washington and would be distributed to the members of the Committee.

APPENDIX No. 2

Notice of proposed amendments to Bill No. 83 was given by Mr. Hughes and by Mr. Good. (*See end of this day's proceedings.*)

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Mr. H. O. Powell, general manager, Weyburn Security Bank, Saskatchewan, was called, and examined by members of the Committee.

At 1 o'clock, the Committee took recess until 4 o'clock p.m., to hear Major Douglas.

AFTERNOON SITTING

4 o'clock p.m.

Major Hugh Douglas, of England, was called and examined in part by members of the Committee on Mr. Irvine's resolution respecting basis of credit, etc., and on banking generally. Major Douglas' examination to be resumed this evening.

At 6 o'clock, the Committee took recess until 8.30 o'clock p.m.

EVENING SITTING

8.30 p.m.

Mr. Powell, general manager, Weyburn Security Bank, recalled and further examined by members of the Committee. His examination to be completed at some later date.

The Chairman read a letter from Mr. William Tyler Page, Clerk of the House of Representatives, Washington, D.C., in answer to a telegram from the Chief Clerk of Committees, House of Commons, Ottawa, stating that he was sending, free of charge, a number of copies of the so-called Rural Credit Acts.

The Chairman adding that these copies had been received.

On motion of Mr. Good, seconded by Mr. Spencer, it was

Resolved, that the appreciation of the Committee be conveyed by their Chief Clerk to Mr. Page for graciously rendering such a service to the House of Commons of Canada.

The Committee then adjourned until to-morrow (Wednesday) at 4 o'clock p.m. to hear the conclusion of Major Douglas' statement.

NOTICES OF MOTION

By Mr. Hughes—That Bill 83 be amended by adding thereto as subsection 3 of section 125, the following:—

" (3) Transfers or sales of shares of the bank by directors or other executive officers of the bank, made within a period of one year prior to any suspension by the bank of payment of any of its liabilities as they accrue in specie

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or Dominion notes, shall be null and void at the option of the transferee who may elect to return such shares or any of them to the transferor and be thereupon entitled to recover the amount of the purchase price thereof, and, in the event of such option being exercised, the transferor shall be and become liable as a shareholder under subsection one of this section and the transferee be not liable in any respect whatsoever as to the said shares under the said subsection one hereof."

By Mr. Good—That section 22 of Bill 83 be amended by inserting after the word "election" in the second line the words "but not less than a majority of the number of votes cast."

WEDNESDAY, April 25, 1923.

The Committee met at four o'clock p.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Bird, Cahill, Carmichael, Casgrain, Clark, Clifford, Coote, Drayton (Sir Henry), Elliott, (Dundas), German, Good, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Jelliff, Kellner, Ladner, Low, Mackinnon, Maclean (York), Macphail (Miss), McCrea, McQuarrie, Malcolm, Marler, Maybee, Mewburn, Milne, Morin, Papi-neau, Reed, Ryckman, St. Père, Sales, Senn, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Woods.

Notice of proposed amendments to Bill No. 83 was given by Mr. Hughes and Mr. Casgrain. (*See end of this day's proceedings.*)

The Committee resumed consideration of Bill No 83 and of Mr. Irvine's Resolution respecting basis of credit, etc.

Major Douglas was recalled to continue his statement, and was further examined by members of the Committee. His examination to be continued to-morrow morning.

The Committee adjourned until to-morrow (Thursday), at 11 o'clock a.m.

NOTICES OF MOTIONS

By Mr. Hughes:

That Sec. 76, ss. 2, may be amended to read:—

"Except as authorized by this Act the Bank, shall not directly or indirectly either by itself or through any Trust Company, Insurance Company or Agency or through any financial, mercantile, industrial or trade concern or organization."

(a) deal in, etc.—

That the following be added as Section 90A:—

"Wherever any Bank makes advances upon the security of any property, real or personal, moveable or immoveable whether by way of mortgage, hypothec, warehouse receipt, bill of lading or other document of title involving the giving by the borrower of insurance as collateral security such insurance shall be effected by or through an agency in which neither the Bank nor its Directors or officers, or servants have any interest whatsoever, either directly or indirectly or with which neither the Bank, its Directors, officers or servants have any affiliation or connection in any manner whatsoever."

APPENDIX No. 2

That Sec. 131B, be amended by inserting after the words, "for himself", in the 10th line thereof, the words, "for the Bank", and after the words "other person" in the same line, the words, "Company, agency or other organization", and after the words, "executive officer" in the 16th and 18th lines thereof, the words, "or clerk of a Bank".

That Sec. 146 be amended to read:—

"If any Bank, except as authorized by this Act either directly or indirectly, either by itself or through any Trust Company, Insurance Company, or Agency, or through any financial, mercantile, industrial or trade concern or organization."

(a) deals in, etc.—

By Mr. Casgrain:

That section 56, subsection 2, be amended by adding after the word, "accountants" in the second line thereof, the words, "or by any Association of chartered accountants incorporated by provincial statute."

That subsection 7, of section 88, be amended by adding after the word, "months" in the eleventh line thereof, the following words: "and any claim by an unpaid vendor of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid"; and by adding after the word, "remuneration" in the thirteenth line thereof, the words, "and such claim of an unpaid vendor."

That subsection 2, of section 89, be amended by striking out all the words commencing with the word, "who" in the ninth line thereof, down to the end of the subsection, and by substituting therefor, the words, "of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid."

THURSDAY, April 26, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Benoit, Bird, Cahill, Carmichael, Carruthers, Chaplin, Clark, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fielding, Fortier, Good, Harris, Hodgins, Hudson, Humphrey, Irvine, Jelliff, Kellner, King, (*Huron*), Ladner, Mackinnon, Maclean (*Halifax*), Marler, Maybee, Mitchell, Morin, Papineau, Rankin, Reed, Ryckman, St. Père, Shaw, Speakman, Spencer, Stevens, Tobin, Woods, Woodsworth.

Messrs. George Bevington and Neal East, witnesses heard on Mr. Irvine's Resolution re Basis of Credit, etc., were discharged from further attendance.

The Chairman stated that it was desirable that notice of all proposed amendments to Bill No. 83 be given without delay. Also, that Professor Irving Fisher, of Yale University, would appear before the Committee on Monday afternoon next, and Mr. Andrew Haydon, representing the Canadian Federation of Insurance Agents, on Tuesday next.

Major Douglas was then recalled and further examined. His examination to be continued.

Mr. H. O. Powell was recalled and his examination concluded. He was discharged from further attendance.

During his examination, the following paper was filed and marked as Exhibit No. 13.—Summary of Farmers' Comparative Statements regarding their operations and average profits. (*See page 100.*)

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At 1 o'clock, the Committee took recess until four o'clock p.m., to hear Sir Edmund Walker.

AFTERNOON SITTING

4 o'clock p.m.

Sir Edmund Walker, president, Canadian Bank of Commerce, Toronto, was called and examined on Bill No. 83, An Act respecting Banks and Banking, and on Mr. Irvine's Resolution re basis of credit, etc. His examination to be continued.

The Committee then adjourned until to-morrow (Friday), at 11 o'clock a.m.

FRIDAY, April 27, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (Halifax), in the Chair, and

Messrs. Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Clark, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fafard, Fielding, Good, Hanson, Hodgins, Hughes, Irvine, Jacobs, Jelliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Maclean (Halifax), Malcolm, Marler, Maybee, Mitchell, Morin, Papineau, Reed, Ryckman, St. Père, Sales, Shaw, Speakman, Spencer, Stevens, Tobin, Power, Woods, Woodsworth.

The Chairman submitted the following paper prepared by the Department of Finance, which was filed as

Exhibit No. 14.—Statement showing by provinces number of branches, agencies and subagencies of chartered banks, as of February 28, 1923. (*See page 101.*)

The Committee proceeded to the consideration of Bill No. 83, respecting Banks and Banking, and of Mr. Irvine's Resolution re basis of credit, etc.

Sir Edmund Walker was recalled and further examined. His examination to be continued.

At 1 o'clock, the Committee took recess until 4 o'clock this afternoon.

AFTERNOON SITTING

4 o'clock p.m.

The examination of Sir Edmund Walker was resumed and concluded.

The Committee then adjourned until Monday next, at 4 o'clock p.m., to hear Professor Irving Fisher, of Yale University.

MONDAY, April 30, 1923.

The Committee met at four o'clock p.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messieurs Black (Yukon), Caldwell, Carmichael, Carruthers, Clark, Coote, Drayton (Sir Henry), Fielding, German, Good, Hanson, Hughes, Irvine, Jeliff, Kellner, Mackinnon, Maclean (Halifax), Maclean (York), St. Père, Shaw, Speakman, Spencer, Stevens, Stork, Woods, Woodsworth.

Mr. Woodsworth and Mr. Robitaille submitted certain proposed amendments to section 56 of Bill No. 83. (*See infra*.)

The Committee then proceeded to the further consideration of Bill No. 83, respecting Banks and Banking, and of Mr. Irvine's resolution on basis of credit, etc.

The Chairman introduced Professor Irving Fisher, of Yale University, economist, who addressed the Committee. To resume to-morrow.

The Committee adjourned until to-morrow at 11 o'clock a.m.

NOTICES OF MOTION

Proposed amendment by Mr. Woodsworth:

That section 56 be amended by adding thereto the following subsections:—

"(17) The Governor in Council shall appoint a competent person who shall be an officer of the Government with the title of Government Auditor, whose duty shall be to examine all reports of auditors made under this Act and require all such auditors to report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders, and as to the sufficiency of their own procedure in auditing the affairs of the bank, and he may enlarge or extend the scope of the audit, or direct that any other or particular examination be made or procedure established in any particular case, as the public interest may seem to require.

"(18) The Government Auditor shall have all the powers of inquiry with respect to the duties to be performed by him conferred upon commissioners appointed under the Inquiries Act.

"(19) The Government Auditor shall annually make report in writing to the Minister of all examinations and inquiries made by and directed to be made by him, and his finding and recommendations in respect thereto, and such report shall be laid before Parliament within twenty-one days from the commencement of each session thereof."

Proposed amendment by Mr. Robitaille:—

That section 56 of Bill No. 83 be amended by inserting in the second line thereof after the words "Chartered Accountants" the words: "or Licentiate Institute Accountants."

That subsection 2 of section 56 be amended by inserting in the second line thereof after the words "Dominion Association of Chartered Accountants" the words "or by The Institute of Accountants and Auditors of the Province of Quebec."

And by striking out at the end of this subsection the words "under the seal of the Dominion Association of Chartered Accountants" and substituting therefore the words "under the respective seal of The Dominion Association of Chartered Accountants and of The Institute of Accountants and Auditors of the Province of Quebec."

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TUESDAY, May 1, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the chair, and Messrs Baxter, Bird, Black (Yukon), Caldwell, Carmichael, Clark, Coote, Desaulniers,, Drayton (Sir Henry), Elliott (Dundas), Fielding, Good, Hanson, Hudson, Hughes, Humphrey, Irvine, Jelliff, Johnston, Kellner, Ladner, Low, Mackinnon, Maclean (York), Macphail (Miss), McMurray, Marler, Mitchell, Morin, Papineau, Rankin, Reed, Robichaud, Robitaille, Ryckman, St. Père, Shaw, Speakman, Spencer, Stevens, Tobin, Power, Woods, Woodsworth.

The Chairman read a letter from Sir John Aird, making certain corrections to his evidence as printed in the unrevised report of the proceedings of the Committee. (*See minutes of evidence of this day.*)

Professor Irving Fisher was recalled to resume his address, and was examined by members of the Committee. His examination being concluded.

The Chairman tendered the thanks of the Committee to Professor Fisher for the information he had laid before the Committee.

At 1 o'clock, the Committee took recess until 4 o'clock p.m.

AFTERNOON SITTING

Four o'clock p.m.

Mr. R. J. Wickham, representing the Canadian Federation of Insurance Agents, being called, read a statement of the views of the latter body in connection with section 76 of Bill No. 83, and was examined by members of the Committee.

Witness retired.

Mr. Beaudry Leman, general manager of the Bank of Hochelaga, was called and examined on certain provisions of Bill No. 83.

Witness retired.

The Committee then adjourned until to-morrow (Wednesday), at 11 o'clock a.m.

WEDNESDAY, May 2, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax), in the Chair, and Messrs. Baxter, Benoit, Black (Yukon), Cahill, Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas, Fielding, Good, Hanson, Hudson, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston, Kellner, King (Huron), Ladner, Mackinnon, Maclean (York), Macphail (Miss), Marler, Milne, Mitchell, Morin, Papineau, Power, Reed, Ryckman, Shaw, Speakman, Spencer, Stevens, Tobin, Woods, Woodsworth.

Reference being made to the advisability of summoning further witnesses, it was

Resolved, that Messrs. Edwards and Clarkson, both chartered accountants, be requested to appear before the Committee.

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The Committee then resumed consideration of Bill No. 83, respecting Banks and Banking.

Mr. A. N. Maclean, ex-banker and merchant, St. John, N.B., was called and examined by members of the Committee.—Witness discharged.

Mr. C. E. Neil, general manager, Royal Bank, Montreal, and

Mr. D. R. Clark, assistant general manager, Bank of Montreal, were called and gave evidence in connection with the statement read yesterday by Mr. R. J. Wickham on behalf of the Canadian Federation of Insurance Agents.

Mr. R. P. Jellett, assistant general manager, Royal Trust Company, Montreal, was called and examined by members of the Committee in connection with the above mentioned subject.—Witness discharged.

At 1 o'clock, the Committee took recess until four o'clock p.m.

AFTERNOON SITTING

4 o'clock p.m.

Mr. Mitchell submitted the third report of the sub-committee, as follows:—

“Committee Room,

“Wednesday, May 2, 1923.

“The sub-committee appointed for the purpose of considering the names of the witnesses who should be summoned before your Committee, beg to report that at a meeting this day it was decided to recommend to your Committee that Mr. W. L. Baker, of Toronto, and Mr. Tom Moore, of Ottawa, be requested to appear before the Committee at such time as the Chairman of your Committee in his discretion deems advisable.

“W. MITCHELL,

“Chairman.”

After discussion, the foregoing report was agreed to on division.

Prof. Adam Shortt, economist, Ottawa, was then called on to address the Committee on banks and banking, and was examined thereon.—Witness retired.

On motion of Mr. Irvine, the Committee resolved to recall Major Douglas for a short explanatory examination to-morrow.

The Committee then adjourned until to-morrow (Thursday), at 11 o'clock a.m.

THURSDAY, May 3, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs: Baxter, Benoit, Bird, Black (Yukon), Cardin, Carmichael, Carruthers, Casgrain, Chaplin, Clark, Coote, Crerar, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fielding, German, Good, Grimmer, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Jelliff, Johnston, Kellner, King (Huron), Ladner, Mackinnon, Maclean (Halifax), Macphail (Miss), McCrea, McKay, Marler, Maybee, Mewburn, Mitchell, Morin, Papineau, Ryckman, Sales, Shaw, Speakman, Spencer, Stevens, Tobin, Power, Woods, Woodsworth.

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The Committee resumed consideration of Bill No. 83, respecting Banks and Banking, and of Mr. Irvine's Resolution *re* basis of credit, etc.

Mr. Irvine gave notice of a proposed amendment to section 136 of Bill No. 83. (*Printed at end of this day's proceedings.*)

Major Douglas was then re-called to give an explanatory statement of his former evidence. Witness discharged.

Mr. G. T. Clarkson, accountant and liquidator, was called and examined by members of the Committee. Witness read a memorandum in respect to the proposed amendments to the Bank Act.

His examination to be continued this afternoon.

The Minister of Finance submitted certain amendments to several sections of Bill No. 83. Ordered that the same be forthwith printed separately for the use of the members of the Committee.

Reference being made to the frequent meetings of the Committee during the time that the House is in session.

After discussion, on motion of Mr. Mewburn, the Committee took recess until 4.30 o'clock p.m.

AFTERNOON SITTING

4.30 o'clock p.m.

Mr. Clarkson's examination was resumed and concluded.

During his examination, the witness submitted to the Committee certain proposed amendments to several sections of Bill No. 83. On motion of Mr. Mewburn, the above mentioned amendments were ordered to be printed in the pamphlet of "Notices of Motions of Proposed Amendments to Bill No. 83, An Act respecting Banks and Banking," of May 3, 1923.

On motion of Mr. Good, Mr. George Bevington was given leave to make a further statement.

The Chairman again tendered the thanks of the Committee to the witness for the information the latter had given to the Committee.

On motion of Mr. Mitchell, a vote of thanks was tendered to Prof. Adam Shortt for his address to the Committee yesterday.

The Committee then adjourned until to-morrow (Friday), at 11 o'clock, a.m.

NOTICE OF MOTION

Proposed amendment by Mr. Irvine.

That section 136 of Bill 83 be amended by adding thereto as subsection 5 the following:—

"5. Provided however that notwithstanding anything to the contrary in this Act provided it shall be lawful for any number of people to organize a mutual bank by each member depositing with the proper authorities securities to cover all cheques that they may desire to issue, every kind of security being acceptable

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that is now acceptable to banks and to the government; each member being permitted to issue cheques against securities up to a certain percentage thereof; the securities to pay no interest, being held only as securities; these banks being limited to the one function of a clearing house for cheques and to seeing that members do not overdraw their accounts; the cheques to be treated as other cheques, and receivable for all public dues at face value."

FRIDAY, May 4, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (Halifax) in the Chair, and

Messrs. Baxter, Benoit, Bird, Black (Yukon), Bristol, Carmichael, Casgrain, Chaplin, Clifford, Coote, Crerar, Duncan, Elliott (Dundas), Fielding, Good, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Johnston, Kelner, Ladner, Macphail (Miss), Marler, Milne, Mitchell, Morin, Papineau, Reed, Rhéaume, Ryckman, Senn, Spencer, Stevens, Tobin, Power, Woods.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

The Chairman again requested members having amendments to propose to do so without further delay and have them printed as notices of motion in the minutes of proceedings.

Mr. Stevens read a telegram from the Institute of Chartered Accountants of British Columbia respecting certain sections of the Bill.

Mr. Geo. Edwards, chartered accountant, Toronto, was then called to address the Committee and to be examined on certain sections of the Bill. Witness retired.

The Committee adjourned until Tuesday next, at 11 o'clock a.m., to hear Mr. W. L. Baker, of Toronto.

TUESDAY, May 8, 1923.

The Committee met at 11 o'clock a.m. Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Benoit, Black (Yukon), Cahill, Carmichael, Caruthers, Casgrain, Chaplin, Clifford, Coote, d'Anjou, Duncan, Elliott (Dundas), Fafard, Fielding, Good, Hanson, Hodgins, Humphrey, Irvine, Jelliff, Kellner, Ladner, Macdonald (Pictou), Mackinnon, Maclean (York), McMaster, McQuarrie, Marler, Milne, Mitchell, Morin, Papineau, Rankin, Rhéaume, Robitaille, Ryckman, St. Père, Sales, Shaw, Speakman, Spencer, Stevens, Tobin, Vien, Woods, Woodsworth.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking, and of Mr. Irvine's resolution re basis of credit, etc.

On notices of motions being called by the Chairman, Mr. Maclean (York) read a letter from C. M. Gripton, St. Catharines, Ont., bank shareholder, suggesting certain amendments to Bill No. 83. (Printed in the minutes of evidence for this date.)

Notices of proposed amendments to sections 13, 20, 54, 80, 88, 93, 94 and 125 of Bill No. 83 were given by Mr. Coote, Mr. Kellner and Mr. Spencer. (*See end of this day's proceedings.*)

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The Chairman stated that W. L. Baker, Toronto, requested to appear before the Committee, was unable to do so at the present time.

Prof. W. W. Swanson, of the Saskatchewan University, economist, etc., was then called upon to address the Committee. His examination followed in part.

At one o'clock, the Committee took recess until 4.30 p.m.

AFTERNOON SITTING

4.30 o'clock p.m.

Prof. Swanson's examination was resumed and concluded. Before being discharged from further attendance, the witness was tendered by the Chairman the thanks of the Committee.

Mr. Tom Moore, president of the Dominion Trades and Labour Congress, was then called, and a statement of his views on the subject matter under consideration was read by witness. Discharged from further attendance.

Notice of proposed amendments to sections 79, 80, 89, 96 and 113 of Bill No. 83 was given by Mr. Marler. (*See end of these proceedings.*)

The Committee then adjourned until 11 o'clock a.m. to-morrow, to take into consideration the sections of Bill No. 83 to which no amendments have been proposed.

NOTICES OF MOTIONS

By Mr. Coote (May 8):—

Moved by Mr. Coote that Bill 83 be amended in the following particulars:—

26. That section 125 be amended by striking out the words "to an amount equal to the par value of the shares held by him, in addition", in the fourth and fifth lines thereof.

27. That section 91, subsection 1, be amended by striking out the words "or discount" in the second line thereof and by striking out the word "may" in the third line and substituting therefor the words "shall not".

28. That section 20 be amended by striking out paragraphs (a), (b) and (c) and substituting therefor the following paragraphs:

(a) fifteen hundred dollars have been paid up when the paid-up capital stock of the bank is two hundred and fifty thousand dollars or less;

(b) three thousand dollars have been paid up when the paid-up capital stock of the bank is over two hundred and fifty thousand dollars and not exceeding one million dollars;

(c) four thousand dollars have been paid up when the paid-up capital stock of the bank is over one million dollars and does not exceed three million dollars;

(d) five thousand dollars have been paid up when the paid-up capital stock of the bank exceeds three million dollars.

29. That section 13 be amended by striking out the word "five" in the first line thereof and substituting therefor the word "one"; and by striking out the words "two hundred and" in the fifth and eighth line thereof.

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30. That section 88 be amended by striking out subsection 9 thereof and substituting therefor the following:

"9. The security taken under subsection 8 of this section may be taken by the bank upon the seed and the crop as in the next preceding subsection provided, but shall not be taken for an amount in excess of the loan or advance for seed grain, nor shall it be taken upon any other property real or personal whatsoever of the borrower, and shall be in the form set forth in schedule D to this Act and in no other form, and no power of attorney in respect to such seed or crop shall be taken by the bank or any officer thereof."

31. That schedule G be amended by inserting on page 83 of the bill after the paragraph commencing with the word "Aggregate" in line nine, the following paragraphs:

"Aggregate amount of loans to corporations upon whose boards any director of the bank is a member, \$.

"Amount of deposits and loans in each province, \$.

"Maximum and minimum rate of interest charged by the bank in respect to loans in each of the several provinces in which its head office or branches are situate, rate per cent.

"Average rate of interest earned on the total volume of loans in each province in which is situate the head office of the bank or any branches thereof, rate ."

32. That section 54, subsection 3 be amended by adding at the end thereof the following proviso:

"Provided however that such statement shall include and show a list of the premises owned by the bank and their value as last assessed by the municipality in which the premises are severally situate."

33. That section 88A be amended by adding after the words "eighty-eight" in the second line thereof the following words: "but not including subsections 2, 8 and 12 of section 88", and by adding thereto as subsection 6A the following:—

"6A. Any security given in respect of a loan by a bank under subsections 2, 8 and 12 of section 88 of this Act shall be null and void as against subsequent purchasers, creditors or mortgagees, without notice thereof, unless the instrument securing such loan is registered in the office for the registration of chattel mortgages for the registry district in which the property covered by such security is situate, and such instrument shall be subject to all the applicable conditions or registry pertaining to the registration of chattel mortgages."

By Mr. KELLNER:—

Moved by Mr. Kellner that Bill 83 be amended in the following particulars:—

34. That section 80 be amended by adding after the word "property" in the third line thereof the following words:—

"Provided however that no mortgage or hypothec shall be taken, held or disposed of in respect to or be deemed to include any property which by any statutory enactment is exempt from seizure under writs of execution."

35. That section 88, subsection 12, be amended by adding after the word "stock" in the third line thereof the following words:—

"Provided however that such security shall not include and shall be deemed not to include any livestock which is by any statutory enactment exempt from seizure under writs of execution."

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By Mr. SPENCER (May 8):—

36. That Section 93 of Bill 83 be amended by striking out the word "fifteen" in the twelfth line thereof and substituting the word "ten".

By Mr. SPENCER (May 8):—

37. That Section 94 of Bill 83 be amended by striking out the words "twenty-five" in the ninth line thereof and substituting the word "ten."

Moved by Mr. MARLER (May 8):—

38. That Section 79, subsection 3 (b) of Bill 83 be amended by inserting the words "or hypothecue" immediately after the word "mortgage" whenever it occurs.

39. That Section 80, Subsection 1 (b) be amended by adding the words "or promises" immediately after the word "agreements."

40. That Section 89, Subsection 3 (c) be amended by inserting the word "owner" in the second line thereof the words "except in the case of threshed grain."

41. That Section 96, Subsection 4, be amended by adding the words "or summons" after the word "order" in the first line, and by adding the same words after the word "thereof" in the last line.

42. That the proposed amendment of subsection 1 of Section 113 of Bill No. 83, as submitted by the Honourable The Minister of Finance, page 4 of the Minister's amendments dated May 3rd, 1923, be amended by striking out the words "held and" in the 13th line thereof and substituting therefor the words "prima facie."

43. That Schedule G page 83 of the Bill be further amended by substituting for item:—

"Aggregate amount of loans to directors and firms of which they are partners and loans for which they are guarantors \$."

the following:—

"Aggregate amount of loans

(a) to directors and firms of which they are partners,

\$

(b) guaranteed by directors, \$."

By Mr. Mewburn:—

(G. T. Clarkson's amendments.)

Re Annual and Special Statements.—

Section 54—Amend to read:—

Item "m" of liabilities to read—"Contingent reserves".

Item "n" of liabilities to read—"Undistributed profits".

Item "q" of assets—eliminate entirely.

Re Shareholders Audit.

Section 56:—

Subsection one—Amend to read:—

"The affairs of the Bank shall be audited by two persons who shall be Chartered Accountants residing in Canada who have for at least six years preceding the date of their appointment, as hereinafter provided, bona fide practised their profession as public Accountants in any city in Canada."

Subsection six—Amend to read:—

"The Shareholders shall at each Annual Meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the Bank."

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or in the alternative—

“The Shareholders shall at each Annual General Meeting appoint two persons, not members of one firm, whose names are included in the last published list to audit the affairs of the Bank. The two persons so appointed, including any member or members of their respective firms who may be appointed in the place of either of them, shall not continue jointly with one another to audit the affairs of the Bank for a period of more than five years in succession without an interval of at least five years during which time another person or persons shall have audited the affairs of the Bank in the stead and place of one of such persons.”

Subsection eight—Amend to read:—

“The remuneration of the Auditors shall be fixed by the Shareholders at the time of their appointment, and in the event of a vacancy and the appointment of another Auditor under the preceding subsection, the remuneration so fixed shall be divided in such manner as may be agreed upon between the Auditors.”

Subsection 11—Amend to read as follows:—

“It shall be the duty of the Auditors from time to time as the same shall come to their attention to report in writing to the General Manager and Directors

1. Any transactions and conditions affecting the well being of the Bank which in their opinion need rectification—

2. Upon any loans and investments exceeding two per cent of the paid up capital of the Bank which in their judgment require special consideration and attention—

“The report so to be made shall be transmitted or delivered by the Auditors to the General Manager at his office and with such transmission or delivery the Auditors shall notify each Director by registered letter, post prepaid, addressed to his last known post office address that they had made such a report and have delivered the same to the General Manager for the inspection and consideration of the members of the Board of Directors.”

Subsection 11-A—Insert new subsection as follows:—

“If any of the conditions or matters in the preceding subsection provided to be reported, shall have been specifically notified to any regular meeting of the Board of Directors, held prior to the time when such conditions or matters came to the attention and notice of the Auditors, and in such manner as in the judgment of the Auditors reasonably set forth and exhibited the facts in respect thereof then the Auditors shall stand relieved from any obligation to report the same to the Directors as hereinbefore provided for.”

Subsection 11-B—Add new subsection as follows:—

“The Auditors shall not less frequently than once in every six months (and more often if the Board of Directors shall so require) prepare lists and statements from the branch and agency reports and returns and the books of the Bank if all loans and investments (excluding bank premises) exceeding two per cent of the paid-up capital of the Bank as on the last juridical day of the month last preceding the date of such lists and statements, and such lists and statements shall be delivered by the Auditors to the meeting of the Board of Directors which shall next follow the date of their completion.”

Subsection 11-C—Add new subsection as follows:—

“The Auditors shall not less frequently than once in every six months (and more often if the Board of Directors shall so require) check the loans, discounts

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and investments of the Bank exceeding two per cent of the paid-up capital of the Bank as shown by the branch and agency returns and the books of the Bank against the credits and authorizations approved and given by the Board of Directors in respect thereto. The Auditors shall with each such checking report in writing to the Board of Directors all such loans, discounts and investments as have been made without the approval of the Board."

Subsection 11-D—Insert new subsection as follows:—

"It shall be the duty of the Auditors, and within one month after the date of completion of the same, to report to the Board of Directors in writing upon their audit of the affairs of the Bank and upon all matters affecting the well being of the Bank which in their opinion need rectification. The Auditors shall at such time also report in writing to the Board of Directors upon all loans and investments exceeding two per cent of the paid-up capital of the Bank which in their opinion require special consideration and attention. Such report shall be delivered or transmitted by the Auditors to the President or a Vice-President and the General Manager of the Bank, and thereafter the Auditors shall appear in person before a meeting of the Board of Directors to be called and held for the purpose, when the report of the Auditors shall be read and the Directors shall make such enquiries as to the steps taken by the Auditors in the performance of their duties as to the Directors shall seem necessary or advisable—

Subsection 11-E—Insert to incorporate Section 56, Subsection 19 of old Act—

"It shall be the duty of the Auditors once at least during their term of office, in addition to such checking and verification as may be necessary for their report upon the statement submitted to the Shareholders under Section 54 of this Act and at a different time to check the cash and verify the securities of the Bank at the Chief Office of the Bank against the entries in regard thereto in the books of the Bank and should they deem it advisable to check and verify in the same manner the cash and securities at any branch or agency."

Subsection 11-F—Insert new subsection as follows:—

"If having regard to the report to be made to the Shareholders under the subsection hereinafter following any dispute or differences of opinion shall arise between the Directors or Officers of the Bank and the Auditors, or either of them, as to any matter whatsoever, then any of such persons may refer the matters at issue to the Minister who shall investigate and determine the issue and the finding of the Minister shall be final and conclusive and shall be binding upon all parties and shall be adopted by them for the purpose of the report to be made."

Subsection 12—Amend to read as follows:

"The Auditors shall make a report to the Shareholders on the statement of the affairs of the Bank to be submitted by the Directors to the Shareholders under Section 54 of this Act during their tenure of office: and the report shall state—

- (a) Whether or not they have obtained all the information and explanations they have required;
- (b) Whether in their opinion the transactions of the Bank which have come under their notice have been within the powers of the Bank;
- (c) Whether their checking of cash and verification of securities required by Subsection 11-E of this Section agreed with the entries of the Bank in regard thereto;
- (d) Whether in their opinion the statement referred to in the report discloses the true condition of the Bank;
- (e) Whether the statement is as shown by the books of the Bank—

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Subsection 12--A—Insert to incorporate Section 56, Subsection 18 of old Act:—

“If a Bank has agencies or branches it shall be sufficient for all the purposes of item “E” of the preceding subsection if the Auditors are allowed access to the returns, reports and statements and to such copies of extracts from the books and account of any such branch or agency as have been transmitted to the Chief Office but the Auditors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash securities, documents and vouchers at the branch or agency.”

Subsection 16—Amend to read as follows:—

“A Director or Officer of the Bank shall not be capable of being appointed Auditor of the Bank.”

RETURNS.

SECTION 113.

Subsection 1—Amend to read as follows:—

“Every return provided for or required under the last preceding section shall be accompanied by declarations which shall be in form set forth in Schedule “G” of this Act and shall be signed by the Chief Accountant or by the acting Chief Accountant and by the President or a Vice-President or the Director acting as President and by the General Manager or other principal officer of the Bank next in authority in the management of the affairs of the Bank at the time which the declaration is signed and such returns shall be deemed to have been prepared, approved and concurred in by the persons who have signed the same to the extents to which they are or should be informed with the proper performance by them of their duties.”

Subsection 4—Amend to read as follows:—

“Notwithstanding anything in the preceding section contained it shall not, except as to the Chief Accountant or Acting Chief Accountant be sufficient for the purposes of any return provided for or required under the said section that such return agrees with the books of the Bank, but the returns shall set forth the true financial position of the Bank on the last juridical day of the month last preceding the date of the return according to the books of the Bank and to the latest information possessed by or reasonably available, with the proper performance of their duties, to each of the Officers who signs the return.”

Subsection 5—re overdue debts.

Eliminate this in entirety.

Subsection 7—

Eliminate the words “or other assets” in line 2 on page 57 of Act.

Subsection 8—Amend to read as follows:—

“For the purposes of any statement provided for under Section 54 and of any return provided for or required under the last preceding section the “Appropriation Account” of a Bank shall be the total amount estimated or ascertained to be necessary to provide for losses, due any cause whatsoever according to the latest information which can be made available therefor and such an amount in addition thereto but which shall not exceed five per cent of the loans and discounts of the Bank as shall be held by the Bank against unknown and unascertained losses. The Appropriation Account shall be applied in reduction of the amounts of the loans, discounts and investments of the Bank and the net amounts thereof after such deduction shall be included and shown in the statements and returns as aforesaid to be made by the Bank.”

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Subsection 9—New subsection to read as follows:—

"For the purposes of any statement to be made under Section 54 of this Act and of any return provided for or required to be made under the last preceding Section, the Contingent Reserves of the Bank shall be the total amount retained by the Bank in excess of appropriation account and the capital rest or reserve funds to provide for unknown and unascertained losses."

SECTION 153.

Subsection 3—amend to read as follows:

"Every President, Vice-President, Director, Auditor, General Manager or other Officer of the Bank who knowingly prepares, signs, approves or concurs in any return respecting the affairs of the Bank provided for or required by Section 112 of this Act which does not set forth the true financial position of the Bank on the last juridical day of the month last preceding the date of the return according to the books of the Bank and to the latest information possessed by or reasonably available, with the proper performance of their duties, to each of the said officers respectively, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case prescribed therefor, by imprisonment for a term not exceeding three years."

Re Schedule G, Page 82—Amend as follows:

Liabilities—

Item 16—strike out words "Appropriation Account" and insert words "Contingent reserves."

Item 17—strike out words "Contingent reserves including" and leave to read "Undistributed profits."

Assets—

Item 20—"Overdue debts"—eliminate in entirety.

Taken from Special Pamphlet giving Mr. Fielding's proposed amendments to Bank Act.

By Hon. Mr. FIELDING:

That Section 5 of Bill No. 83 be amended by striking out the first subsection thereof and substituting therefor the following:

Each of the several banks under the name mentioned in Schedule A to this Act is, and shall continue to be, a body politic and corporate until the first day of July, one thousand nine hundred and thirty-three, and this Act shall form and be the charter of each of the said banks until the first day of July aforesaid. The chief office of each bank, and, subject to the provisions of this Act with regard to increase or decrease, the amount of its authorized capital stock, divided into shares of one hundred dollars each, shall be as set out in the Schedule.

That Schedule "A" of Bill No. 83 be struck out and the following schedule substituted therefor:

SCHEDULE A

Name of Bank	Capital authorized	Chief office of Bank
1. The Bank of Montreal.....	\$31,175,000	Montreal
2. The Bank of Nova Scotia.....	15,000,000	Halifax
3. The Bank of Toronto.....	10,000,000	Toronto
4. The Molsons Bank.....	5,000,000	Montreal
5. La Banque Nationale.....	5,000,000	Quebec

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SCHEDULE A—Concluded

Name of Bank	Capital authorized	Chief office of Bank
6. La Banque Provinciale du Canada.....	5,000,000	Montreal
7. The Union Bank of Canada.....	15,000,000	Winnipeg
8. The Canadian Bank of Commerce.....	25,000,000	Toronto
9. The Royal Bank of Canada.....	25,000,000	Montreal
10. The Dominion Bank.....	10,000,000	Toronto
11. The Bank of Hamilton.....	7,000,000	Hamilton
12. The Standard Bank of Canada.....	5,000,000	Toronto
13. La Banque d'Hochelaga.....	10,000,000	Montreal
14. The Imperial Bank of Canada.....	10,000,000	Toronto
15. The Home Bank of Canada.....	5,000,000	Toronto
16. The Sterling Bank of Canada.....	3,000,000	Toronto
17. The Weyburn Security Bank.....	1,000,000	Weyburn

That section 30 of Bill No. 83 be struck out and the following substituted therefor:

The directors may appoint as many officers, clerks and servants as they may consider necessary for the carrying on of the business of the bank, *and may authorize any officer of the bank to make such of these appointments as they may deem expedient.*

(2) Such officers, clerks and servants may be paid such salaries and allowances as the directors *or such officer, in the case of appointments made by him,* consider necessary.

(3) The directors before permitting any general manager, manager, or other officer, clerk or servant of the bank to enter upon the duties of his office, *and any officer, authorized as aforesaid, before permitting any officer, clerk or servant of the bank appointed by him to enter upon the duties of his office,* shall require him to give a bond, guarantee or other security to the satisfaction of the directors *or such officer as the case may be,* for the due and faithful performance of his duties.

That section 54 of Bill No. 83 be amended as follows:—

(1) By striking out paragraphs (m) and (n) under the heading "Liabilities" in subsection 2.

(2) By striking out paragraph (k) under the heading "Assets" in subsection 2 and substituting the following:

(k) call and short (not exceeding thirty days) loans in Canada on stocks, debentures and bonds *and other securities of a sufficient marketable value to cover.*

(3) By striking out paragraph (l) under the heading "Assets" in subsection 2 and substituting the following:

(l) call and short (not exceeding thirty days) loans elsewhere than in Canada *on stocks, debentures and bonds and other securities of a sufficient marketable value to cover.*

(4) By striking out paragraph (m) under the heading of "Assets" in subsection 2 and substituting the following:

(m) other current loans and discounts in Canada (less rebate of interest), *after making full provision for all bad and doubtful debts.*

(5) By striking out paragraph (n) under the heading of "Assets" in subsection 2 and substituting the following:

(n) other current loans and discounts elsewhere than in Canada (less rebate of interest), *after making full provision for all bad and doubtful debts.*

(6) By striking out paragraph (q) under the heading of "Assets" in subsection 2 and substituting therefore the following:

(q) *Non-current Loans*, estimated loss provided for.

(7) By striking out the word "and," the first word in line two on page twenty-three, and substituting therefore the number "3" as a subsection number and by changing the subsection numbers 3, 4 and 5 to 5, 6 and 7.

(8) By adding a new subsection 4 as follows:

4. *Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank's interest in the corporation; and the shareholders and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed the shareholders and auditors of such controlled corporations.*

That section 56 of Bill No. 83 be amended as follows:—

(1) By striking out subsection 1 and substituting therefore the following:

(1) *The affairs of the bank shall be audited by two persons, residing in Canada, each one of whom shall be a public accountant who has for at least six years preceding the date of his appointment, as hereinafter provided, practised his profession in Canada, and who shall also be a member in good standing of an Institute or Association of Accountants incorporated under the authority of the Legislature of any province of Canada.*

(2) By striking out subsection 2 and substituting therefor the following:

(2) *A list or lists shall be furnished to the Minister and also to the Association by each such incorporated Institute or Association of Accountants on or before the thirty-first day of July, nineteen hundred and twenty-three, and thereafter on or before the thirtieth day of June in each year, of all members of their corporation in good standing whose names are entitled to be included therein as determined by the provisions of the last preceding subsection, together with their addresses and the names of the firms, if any, of which they are members, and such list or lists shall be certified under their corporate seals respectively.*

(3) By striking out subsection 3 and substituting therefor the following:

(3) *The Association shall not later than the thirty-first day of August next following, deliver or send to the Minister by registered post the names of the persons, if any, included in such list or lists of whose appointment to be an auditor of a bank they may disapprove, together with the reasons for such disapproval, and if the Minister is satisfied that such reasons are good and sufficient, he shall remove the name of any such person from such list or lists.*

(4) By striking out subsection 4 and substituting the following:

4. *The Minister may, not later than the thirtieth day September next following, remove from such list or lists the name of any person of whose appointment to be an auditor of a bank he may disapprove.*

(5) By striking out subsection 5 and substituting the following:

5. *The Minister shall, as soon thereafter in each year as may be convenient, cause to be inserted in two successive issues of the Canada Gazette, a public notice containing the names and other particulars of persons included in such list or lists and not removed therefrom by the Minister, and the persons included in such published notice shall be deemed qualified for appointment as auditors of a bank.*

(6) By striking out subsection 6 and substituting the following:

6. *The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank; but if any person*

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has acted for four years in succession as Auditor of the affairs of any one bank, or if any member or members of the same firm have either or in the aggregate acted for four years in succession as Auditor or Auditors respectively of the affairs of any one bank, such person or any member of such firm shall not be again appointed to audit the affairs of such bank until a further period of one year shall have elapsed, provided, however, that one such person or any member of one such firm may be appointed during the two years next ensuing after the passing of this Act.

(7) By striking out subsection 8 and substituting therefor the following:

8. The remuneration of auditors shall be fixed by the shareholders at the time of their appointment, and in the event of any vacancy and the appointment of another auditor under the next preceding subsection, the remuneration so fixed shall be divided *between them as the directors shall consider just and reasonable.*

(8) By striking out subsection 16 and substituting therefor the following:

16. No auditor and no member of any firm of auditors shall be eligible for appointment as auditor of a bank hereunder *for a period of two years* if he or any member of his firm while acting as auditor of a bank accepts any retainer or undertakes any employment on behalf of or at the instance of such bank, or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder.

(9) By adding as subsection 17 the following:

No person shall be appointed an auditor of the bank, if such person or any member of his firm is a Director or officer of the bank. 3-4 G. V., c. 9, s. 56. Am.

That section 76 of Bill No. 83 be amended by striking out of paragraph (d) of subsection 2 the words "and not exceeding ten thousand dollars" at the end of the said paragraph.

That section 113 of Bill No. 83 be amended as follows:—

(1) By striking out subsection 1 and substituting therefor the following:

1. Every return provided for or required under the last preceding section shall be accompanied by declarations which shall be a part of the return, and the declarations shall be in the form set forth in Schedule G of this Act, and shall be signed by the chief accountant, or by the acting chief accountant, and president, or a vice president, or the director then acting as president, and by the general manager or other principal officer of the bank next in authority in the management of the affairs of the bank at the time at which the declaration is signed, *and the persons respectively who sign the said return shall be held and deemed to be responsible for the truth of the facts certified by them in their respective declarations.*

(2) By striking out of subsection 4 all the words after "return" in line nine down to the end of the said subsection.

(3) By striking out paragraph (a) of subsection 5 and substituting the following therefor:

5. (a) the borrower has not for a period of *two years* preceding the date of such return, statement or balance sheet, paid the interest therein at the rate agreed, in cash, unassisted by the bank;

(4) By striking out subsection 6 and substituting therefor the following:

6. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, *then such bank shall, for the purposes of any return required under the last preceding section, transmit or deliver therewith, a separate return, showing the assets and*

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liabilities of each such corporation, and the interest of the bank in such corporations shall be shown separately in any return respecting the affairs of the bank.

That Schedule G to Bill 83 be amended as follows:—

(1) By striking out Item No. 13 under the heading of “Assets” and substituting therefor the following:

13. Call and short (not exceeding thirty days) loans in Canada on stocks, debentures and bonds *and other securities of a sufficient marketable value to cover.*

(2) By striking out Item No. 14 under the heading of “Assets” and substituting therefor the following:

14. Call and short (not exceeding thirty days) loans in Canada *on stocks, debentures and bonds and other securities of a sufficient marketable value to cover.*

(3) By striking out Item No. 20 under the heading of “Assets” and substituting therefor the following:

20. *Non-current Loans*

(4) By re-numbering Item No. 27 under the heading of “Assets” as No. 28 and by inserting as Item No. 27 under the heading of “Assets” the following:

27. *Shares of controlled companies*

That subsection 7 of section 114 of Bill No. 83 be amended by striking thereout the first four lines and substituting the following: “The notice called for by the next preceding subsection is required to be given *twice, namely, during the month of January next after the end of the first two-year period and also during the month of January next after the end of the first five-year period in respect of which . . .*”

That section 122 of Bill No. 83 be struck out and the following substituted therefor:

122. The curator *or liquidator* shall make all returns and reports, and shall give all information to the Minister, touching the affairs of the bank, that the Minister requires of him. 63-64 V., c. 26, s. 28.

That section 146 of Bill No. 83 be amended by striking out of paragraph (d) the words “and not exceeding ten thousand dollars” at the end of said paragraph.

That section 153 of Bill No. 83 be amended as follows:—

(1) By striking out subsection 3 and substituting therefor the following:

3. Every president, vice-president, director, auditor, general manager, or other officer of the bank who knowingly prepares, signs, approves or concurs in any return respecting the affairs of the bank provided for or required by section 112 of this Act which does not set forth the true financial position of the bank on the last juridical day of the month last preceding the date of the return according to the latest information possessed by or reasonably available to *him* or any knowledge respecting the true financial position of the bank which by the requirements of this Act should have been set forth in the return, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case prescribed therefor, by imprisonment for a term not exceeding three years. 53 V., c. 31, s. 99, Am.; 3-4 G. V., c. 9, s. 153, Am.

WEDNESDAY, May 9, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs.:—Baxter, Benoit, Black (Yukon), Carmichael, Casgrain, Chaplin, Clark, Coote, d'Anjou, Desaulniers, Duncan, Elliott (Dundas), Fafard, Fielding, Finn, Good, Guthrie, Hanson, Hatfield, Hodgins, Hudson, Humphrey, Jacobs, Jelliff, Johnston, Kellner, King (Huron), Ladner, Mackinnon, Maclean (Halifax), McKay, Malcolm, Marler, Maybee, Mitchell, Morin, Papineau, Porter, Rankin, Reed, Robichaud, Robitaille, Ryckman, St. Père, Shaw, Speakman, Spencer, Stevens, Tobin, Vien, Woods, Woodsworth.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Mr. Mitchell gave notice of proposed amendments to section 113 and to schedule G, and the Minister of Finance gave notice of a proposed amendment to section 28. (*See end of this day's proceedings.*)

Mr. Speakman gave notice of, and read a proposed motion regarding the procedure of the Committee. (*For this proposed motion see pages 42, 43.*)

After discussion, it was—

Resolved, that consideration of Mr. Speakman's proposed motion be postponed until Tuesday next, May 15.

The Committee then proceeded to the further consideration of the sections of Bill No. 83 for which no amendment had been proposed.

Section 6 again read and adopted.

Section 10 again read and ordered to stand for further consideration.

Section 18, paragraph (c), again read and adopted on division.

Section 18, subsection 3, again read and ordered to stand for further consideration.

Section 22 again read. Mr. Good moved that the same be amended by inserting after the word "election," line 2, the words "but not less than a majority of the number of votes cast."

The question being put on the amendment, it was resolved in the negative on division, and the section was adopted without amendment.

Section 23 again read and adopted.

Section 28, subsection 4: The Minister of Finance gave notice of the following proposed amendment:—

That subsection 4 of section 28 of Bill No. 83 be struck out and the following substituted therefor:—

4. A record shall be kept of the attendance at each meeting of directors. A summary thereof, prepared so as to show the total number of meetings held and the number attended by each director shall be sent to each shareholder with the notice of the annual meeting required by Section twenty-one; and *such summary may state the nature and extent of the services rendered by any director who, by reason of residing at a point remote from the chief office of the bank, has been unable to attend meetings of directors.*

And the above-mentioned subsection 4 of section 28 was ordered to stand for further consideration.

Section 34, paragraph (d), again read and adopted.

Section 35, subsection 8, again read and ordered to stand for further consideration.

Sections 55 and 59 again read and adopted.

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Section 61, subsections 3, etc., again read and ordered to stand for further consideration.

Section 62 again read and ordered to stand for further consideration.

Section 77, subsection 4, again read and adopted.

Section 84 again read and ordered to stand for further consideration.

Sections 86 and 87 again read and adopted.

Section 88, subsections 1, 2, 3, 4, 5 and 6 again read and adopted.

Section 88, subsection 7 was again read and ordered to stand for further consideration.

At one o'clock, the Committee adjourned until Tuesday next, May 15, at 11 o'clock a.m.

NOTICES OF MOTIONS

By Mr. W. G. Mitchell:—

(1) That subsection 5 of section 113 of Bill No. 83 be amended by the addition of the following immediately after (e):—

Provided, however, that any loan falling within this subsection may be included amongst current loans if in the opinion of the directors duly expressed such loan is recoverable.

(2) That schedule G (p. 82 of the Bill) be amended by striking out of LIABILITIES items 16 and 17.

By Hon. Mr. Fielding:—

13. That subsection 4 of section 28 of Bill No. 83 be struck out and the following substituted therefor:

4. A record shall be kept of the attendance at each meeting of directors. A summary thereof, prepared so as to show the total number of meetings held and the number attended by each director shall be sent to each shareholder with the notice of the annual meeting required by Section twenty-one; *and such summary may state the nature and extent of the services rendered by any director who, by reason of residing at a point remote from the chief office of the bank, has been unable to attend meetings of directors.*

TUESDAY, May 15, 1923.

The Committee met at 11 o'clock a.m. Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Benoit, Boivin, Black (Yukon), Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Chevrier, Clifford, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas), Elliott (Waterloo), Fafard, Fielding, Forke, German, Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Laflamme, Macdonald (Pictou), Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, Malcolm, Marler, Maybee, Milne, Mitchell, Morin, Papineau, Porter, Power, Rankin, Reed, Rhéaume, Robb, Robichaud, Robitaille, Ryckman, St. Père, Sales, Senn, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Vien, Woods, Woodsworth.

The Committee being called to order—

Mr. Speakman moved, seconded by Mr. Good, that,

"Whereas the work of the Select Standing Committee on Banking and Commerce which is undertaking the decennial revision of the Bank Act has been widened this year to include a general investigation of the basis, function, and

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control of financial credit and a large amount of data and information has been submitted to the Committee in this connection.

"And whereas the vital importance of this investigation has become apparent to all who are familiar with economic conditions throughout the world and with the very close connection between these conditions and the prevailing monetary and financial systems;

"And whereas testimony has already been given as to the seriousness of the situation, not only by those who challenge the existing financial order, but also by those who defend it;

"And whereas it will be impossible for the Members of the House to give adequate consideration before the end of the present session to the evidence submitted;

"And whereas a Special Committee of the House is now making an inquiry into Agricultural conditions in the course of which inquiry the whole question of rural credits is receiving attention;

"And whereas it is not improbable that this Special Committee on Agricultural conditions may make recommendations for rural credit legislation;

"And whereas time should be given for the Members of the House to acquaint themselves with the evidence submitted to, and recommendations made by, this Special Committee so that any special rural credit legislation recommended to the House may be considered in relation to, and as far as possible at the same time as, the final revision of the Bank Act;

"And whereas the War Finance Act of 1914, still in force, and for many reasons unlikely to be repealed, overrides the Bank Act in a number of particulars, and the problem of consolidating these two Acts confronts us;

"And whereas the situation revealed by the large number of answers to the questionnaire sent out by the Progressive Group demands most careful and prolonged consideration;

"And whereas the proposed economic conference of the British Dominions in October next will provide an opportunity for discussing some of the wider implications of our banking and financial systems and possibly prepare the way for joint action looking towards general reform of banking and currency;

"And whereas the Canadian Council of Agriculture, the Alberta Legislature, and the Manitoba Government have petitioned for the postponement of the final revision of the Bank Act until next year.

"Now, therefore, Be it Resolved that this Committee recommend that the charters of the Canadian Banks be given an extension of one (1) year, and that the final revision of the Bank Act be left over till next session."

And a debate arising on the foregoing proposed motion, the said debate was adjourned until this afternoon.

The Committee then took recess until four o'clock p.m.

AFTERNOON SITTING

4 o'clock p.m.

Mr. Shaw gave notice of the following resolution to be moved by him at some subsequent meeting of the Committee, viz:—

"That Sir Montague Allan, former president of the Merchants Bank; D. C. Macarow, former general manager of the Merchants Bank; and C. C. Kippin, former assistant general manager of the Merchants Bank, be forthwith summoned to give evidence before the Select Standing Committee on Banking and Commerce."

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The Committee resumed consideration of Mr. Speakman's motion.

Mr. Stevens moved in amendment thereto, seconded by Mr. Black (Yukon):—

"That all the words after the word 'that' in the first line thereof be struck out and the following be substituted therefor:—

"This Committee, having heard numerous witnesses and accumulated a large volume of evidence, is of the opinion that there exists a most urgent demand for long term loans at a lower rate of interest, more particularly to the agriculturist and small producers, based on an amortizing plan; and, further, as such class of loans lies outside of the functions of ordinary banking, this Committee is of the opinion that the Revision of the Bank Act, together with careful consideration of the proposed amendments thereto, should be proceeded with forthwith, but that all the evidence taken before this Committee be submitted to the Minister of Finance, with the request that his department, with the assistance of such expert advisers as may be necessary, make a careful examination of said evidence."

The question being raised by Mr. Maclean (York) that the foregoing amendment was out of order, inasmuch as the Committee had by resolution adopted on Tuesday, March 13, 1923, left the inquiry into the subject of rural credits to the Special Committee on Agricultural Conditions,

Thereupon, Mr. Black (Yukon) requested the ruling of the Chair on the question whether Mr. Speakman's motion was in order.

The Chairman ruled that the main motion and the amendment thereto were both out of order. (*See Minutes of Evidence of this day.*)

The Committee then resumed consideration of the sections of Bill No. 83, respecting Banks and Banking.

Section 88, subsection 7, again read. Mr. Casgrain moved:—

That subsection 7 of section 88 be amended by adding after the word "months" in the eleventh line thereof the following words: "and any claim by an unpaid vendor of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid," and by adding after the word "remuneration" in the thirteenth line thereof the words "and such claim of an unpaid vendor."

Mr. Leman, Bank of Hochelaga, and Mr. C. A. Bogert, Dominion Bank, were heard thereon.

The question being put on Mr. Casgrain's motion, it was agreed to on division: yeas, 20; nays, 18.

Mr. Coote gave notice of proposed amendments to sections 101, 102, and 103 of Bill No. 83. (*See end of these Proceedings.*)

The Committee then adjourned until to-morrow at 11 o'clock a.m.

NOTICE OF MOTION

Proposed amendments by Mr. Coote (May 15) (new words in italic):—

That section No. 101 be amended as follows:—

The agreement of sale and purchase shall be submitted to the shareholders of the selling *and purchasing banks*, either at the annual general meeting of *the respective banks* or at a special general meeting thereof called for the purpose.

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2. A copy of the agreement shall be mailed, post paid, to *every* shareholder of *each* bank to his last known address, at least four weeks previous to the date of the meeting at which the agreement is to be submitted, together with a notice of the time and place of the holding of such meeting.

That section No. 102 be amended by substituting the word "*each*" for the word "*such*" in the first line thereof.

That Section No. 103 be amended as follows:—

If the agreement provides for the payment of the consideration for such sale and purchase, in whole or in part, in shares of the capital stock of the purchasing bank, and for such purpose it is necessary to increase the capital stock of such bank, *a by-law for the purpose may be passed by the shareholders at the meeting called to approve of the agreement.*

Wednesday, May 16, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the chair, and Messrs. Benoit, Bird, Carmichael, Carruthers, Casgrain, Chevrier, Clifford, Coote, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fielding, Good, Grimmer, Guthrie, Hanson, Harris, Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Laflamme, Low, Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, Malcolm, Marler, Maybee, Milne, Mitchell, Morin, Papineau, Power, Reed, Robichaud, Robitaille, Ryckman, St. Père, Shaw, Speakman, Spencer, Stevens, Stork, Tobin, Vien, Woods, Woodsworth.

Notice of proposed amendments to sections 5, 91 and 156 of Bill No. 83 was given by Messrs. Fielding, Shaw and Speakman. (See end of these proceedings).

Mr. Laflamme gave notice that at a subsequent meeting of the Committee he will move for the reconsideration of Mr. Casgrain's amendment to subsection 7 of section 88 of Bill No. 83, which amendment was agreed to on division on 15th May instant.

Mr. Coote gave notice that to-morrow he will move that the Committee do not sit whilst the House is in session during the Budget Debate, except for the purpose of hearing evidence from witnesses.

The Committee then resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 13 again read. Mr. Coote moved that section 13 be amended by striking out the word "five" in the first line thereof and substituting therefor the word "one"; and by striking out the words "two hundred and" in the fifth and eight lines thereof.

The question being put on the amendment it was negatived on division—Yeas 17; nays, 27.

The question being put on the said section,—

Mr. Ladner moved that section thirteen of Bill No. 83 be amended by inserting after the word "weeks" in the tenth line thereof the following words, "and by notice with postage prepaid mailed to the last known address of each subscriber at least ten days prior to the date of such meeting."

The question being put on the amendment, it was agreed to, and section 13 was adopted as amended.

Section 10 again read, and adopted.

Section 35, subsection 8, again read and adopted.

Section 61, subsection 2, again read and ordered to stand for further consideration.

Section 61, subsection 4, again read and adopted.

Section 61, subsection 5, again read and ordered to stand for further consideration together with the rest of the section.

Section 62, again read and adopted.

Section 11 again read.

Mr. Ladner moved that section eleven of Bill No. 83 be amended by inserting after line two thereof the following:—

"A provisional director shall not be eligible to act as such unless he be a *bona fide* subscriber of stock of the bank for and on his own behalf, to become the absolute and sole owner in his individual right of such stock, and not as trustee or in the right of another, on which subscription not less than—

"(a) three thousand dollars have been paid up, when the paid-up capital stock of the bank is one million dollars or less;

"(b) four thousand dollars have been paid up, when the paid-up capital stock of the bank is over one million dollars and does not exceed three million dollars;

"(c) five thousand dollars have been paid up, when the paid-up capital stock of the bank exceeds three million dollars."

The question being put on the amendment, it was agreed to.

The question being put on the section as amended, it was adopted.

Section 76, subsection 1, read and adopted.

Section 76, subsection 2, paragraph (d) again read.

Mr. Fielding moved that section 76 of Bill No. 83 be amended by striking out of paragraph (d) of subsection 2 the words "and not exceeding ten thousand dollars" at the end of the said paragraph.

The question being put on the amendment, it was agreed to.

The question being put on the section as amended, it was agreed to subject to reconsideration of Mr. Hughes' amendment, that section 76, ss. 2, may be amended to read:

"Except as authorized by this Act the Bank shall not directly or indirectly either by itself or through any Trust Company, Insurance Company or Agency or through any financial, mercantile, industrial or trade concern or organization."

Section 79, subsection 1, again read and adopted.

Section 79 subsection 2, ordered to stand for further consideration.

Section 79, subsection 3, paragraph (b).

Mr. Marler moved that the same be amended by inserting the words "or hypothec" immediately after the word "mortgage" whenever it occurs.

The question being put on the amendment, it was agreed to.

Further consideration of section 79 proposed.

At one o'clock, the Committee adjourned until to-morrow at 11 o'clock a.m.

NOTICES OF MOTIONS

Proposed amendment by Mr. Speakman:—That section five of Bill 83 be amended by striking out the words "thirty-three" in the fourth and eighteenth lines thereof, and substituting the words "twenty-four" therefor.

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Proposed amendment by Mr. Shaw:—

That Section 91 be struck out and the following substituted therefor:—

91. (1) The Bank may stipulate for, take, reserve, or exact any rate of interest or discount but not exceeding 7 per cent per annum and may receive and take in advance any such rate.

(2) If any Bank shall stipulate for, reserve, exact, take, receive, or charge a rate of interest greater than 7 per cent per annum then the Bank, or any subsequent holder, shall be deemed to have forfeited the entire interest, which the note, bill, or other evidence of debt carries with it or which has been agreed to be paid.

(3) In the event that a greater rate than 7 per cent per annum has been paid to the Bank, then the person by whom it has been paid, or his legal representative may recover in any Court twice the amount of interest thus paid, provided such action is commenced within two years from the time such excess interest was paid.

(4) In any suit, action or other proceeding concerning a bank loan wherein it is alleged that the amount of interest paid or claimed exceeds the rate of seven per centum per annum, the court may reopen the transaction and take an account between the parties, and may, notwithstanding any statement or settlement of account, or any contract purporting to close previous dealings and create a new obligation, reopen any account already taken between the parties, and relieve the person under obligation to pay from payment of any sum in excess of the said rate of interest and if any such excess has been paid, or allowed in account, by the debtor, may order the bank to repay it, and may set aside either wholly or in part, or revise, or alter, any security given in respect of the transaction.

Proposed amendment by Mr. Fielding:—

That Section 156 of Bill No. 83 be amended by adding as subsection 3, the following:—

3. The Minister may, upon the application of any interested person, require that any person who receives money on deposit or receives money for transmission to a foreign country without being authorized so to do, either by or under the authority of a statute lawfully enacted, shall make to the Minister in such form as the Minister may prescribe, a return respecting the business so carried on; or the Minister may direct an inquiry into such business and that a report be made to him thereon by any one or more persons whom he may select from the list of persons eligible to audit the affairs of a bank, or by any other person whom he may designate for that purpose; and the Minister may, after due consideration of such report, require that such business be discontinued, or that security be deposited as a condition of the continuance thereof, to such extent and in such manner as the public interest may seem to require; and failure to comply with such requirement, within such time as the Minister shall allow, shall be an offence against this Act; and if the offender be a body corporate, then every officer of such body corporate shall be guilty of such offence.

THURSDAY, May 17, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (Halifax), in the Chair, and

Messrs. Benoit, Bird, Boivin, Black (Yukon), Caldwell, Carmichael, Caruthers, Gasgrain, Chaplin, Chevrier, Clifford, Coote, d'Anjou, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas), Elliott (Waterloo), Fafard, Fielding, Forke, Fortier, Good, Grimmer, Guthrie, Hanson, Harris, Hatfield,

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Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston (Last Mountain), Kellner, King (Huron), Ladner, Macdonald (Pictou), Mackinnon, Macphail (Miss), McCrea, McKay, McMurray, McQuarrie, Malcolm, Marler, Maybee, Milne, Mitchell, Morin, Papineau, Porter, Power, Rankin, Reed, Rhéaume, Robichaud, Robitaille, Ryckman, St. Père, Sales, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Vien, Woods, Woodsworth.

Mr. Irvine gave notice that at a subsequent meeting of the Committee he will move that section 13 of Bill No. 83 be reconsidered and that the amendment thereto, No. 29, on page 14 on the printed Notices of Motion, dated May 8, 1923, rejected on the 16th day of May instant in the following words:—

“That section 13 be amended by striking out the word ‘five’ in the first line thereof and substituting therefor the word ‘one’ and by striking out the words ‘two hundred and’ in the fifth and eighth lines thereof ”

be adopted.

Notice of proposed amendments to sections 54, 76, 91, 93 and 94 of Bill No. 83 was given by Mr. Coote. (*See end of this day's proceedings.*)

The Committee then resumed consideration of Bill No. 83, An Act respecting Banks and Banking.

Section 79 again read and adopted as previously amended.

Section 80 again read.

Mr. Kellner moved that section 80 be amended by adding after the word “property” in the third line thereof the following words:—

“Provided, however, that no mortgage or hypothec shall be taken, held or disposed of in respect to or be deemed to include any property which by any statutory enactment is exempt from seizure under writs of execution.”

The question being put on the amendment, it was negatived on division.

The question being put on section 80, it was adopted on division.

Section 84 again read.

Mr. Hanson moved that section 84 of Bill 83 be amended by adding thereto the following words:—

“Provided that any security given in respect of a loan by a bank on standing timber shall be null and void as against subsequent purchasers, creditors or mortgagees without notice thereof, unless the instrument securing such loan is registered against the land upon which is situate such timber, in the land registry office of the registry district in which such land is situate and such instrument shall be subject to all the applicable conditions of registry pertaining to the registration of mortgages or charges upon lands within the province in which such land is situate.”

Ordered to stand for further consideration.

At one o'clock,—

Mr. Irvine moved that the Committee do adjourn until to-morrow.

Mr. Ladner moved in amendment, that the Committee do meet again this day at four o'clock p.m.

The question being put on the amendment, it was resolved in the affirmative on division: yeas, 29; nays, 13.

The Chairman then declared the Committee adjourned until 4 o'clock p.m.

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AFTERNOON SITTING

Four o'clock p.m.

Mr. Hughes, by leave of the Committee, withdrew his amendment to section 76, proposed on April 25, and gave notice that he would move to substitute another amendment therefor. (*For this amendment see end of these proceedings.*)

Mr. Carmichael gave notice that he will move to-morrow that "section five of Bill 83 be amended by striking out the words "thirty-three" in the fourth and eighteenth lines thereof, and substituting the words "twenty-four" therefor." Said proposed amendment standing in the name of Mr. Speakman.

The Committee then resumed consideration of Bill No. 83.

Section 84 and Mr. Hanson's amendment thereto again read.

Mr. Hanson moved that the following be substituted for his previous proposed amendment: That section 84 be amended by adding thereto the following proviso: "Provided that the instrument evidencing such security is registered against the land upon which such timber stands or in the offices in which are recorded such rights or licenses."

The question being put on Mr. Hanson's motion, it was agreed to.

The question being put on section 84 as so amended, it was agreed to.

Section 88, subsection 8, read and adopted.

Section 88, subsection 9: Mr. Cote moved that section 88 be amended by striking out subsection 9 thereof and substituting therefor the following:

"9. The security taken under subsection 8 of this section may be taken by the bank upon the seed and the crop as in the next preceding subsection provided, but shall not be taken for an amount in excess of the loan or advance for seed grain, nor shall it be taken upon any other property real or personal whatsoever of the borrower, and shall be in the form set forth in schedule D to this Act and in no other form, and no power of attorney in respect to such seed or crop shall be taken by the bank or any officer thereof."

The question being put on the amendment, it was negatived on division: yeas, 16; nays, 22. The question being put on subsection 9, it was agreed to without amendment.

Section 88, subsections 10 and 11 read and adopted.

Section 88, subsection 12: Mr. Kellner moved that section 88, subsection 12, be amended by adding after the word "stock" in the third line thereof the following words:

"Provided however that such security shall not include and shall be deemed not to include any livestock which at the date of coming into force of this Act is by any statutory enactment exempt from seizure under writs of execution."

The question being put on the amendment, it was agreed to on division, and said subsection 12 was adopted as so amended.

Section 88, subsections 13, 14 and 15 read and adopted.

Section 88, subsection 7, ordered to stand for further consideration.

Section 88A read.

Mr. Coote moved that section 88A be amended by adding after the words "eighty-eight" in the second line thereof the following words: "but not including subsections 2, 8 and 12 of section 88", and by adding thereto as subsection 6A the following:—

"6A. Any security given in respect of a loan by a bank under subsections 2, 8 and 12 of section 88 of this Act shall be null and void as against subsequent purchasers, creditors or mortgagees, without notice thereof, unless the instrument securing such loan is registered in the office for the registration of chattel mortgages for the registry district in which the property covered by such security is situate, and such instrument shall be subject to all the applicable conditions of registry pertaining to the registration of chattel mortgages."

Ordered to stand for further consideration.

The Committee then adjourned until to-morrow at 11 o'clock a.m.

NOTICES OF MOTIONS

Proposed amendments by Mr. Coote (May 17):—

That Section 54 be amended by adding thereto the following subsection 6: The full and complete list of all bonds, debentures, stocks, and other like investments owned by the bank with their book value.

That Section 76, Subsection 2 be amended by adding the following paragraph: Lend money or make advances in excess of 10 per cent of its paid up capital to any person, company or corporation or on the security of such a person, company or corporation.

That Section 76 be amended by adding thereto the following subsection "receive on deposit more than ten times the amount of the paid up capital of the bank.

That Section 91 be amended by adding the following subsection thereto: 4. No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer.

That Section 91, subsection 1, be amended by adding thereto the words "the rate of interest charged by the bank shall appear on the face of the note."

That Section 93 be amended by striking out the words "one-eighth" in the tenth line thereof and substituting the words "one-sixteenth".

That Section 94 be amended by striking out the words "one-quarter" in the seventh line thereof and substituting therefor the words "one-eighth".

By Mr. Hughes:—

That the following be added as Clause "F" to sub-section (2) of Section 76:—

"F. Act as agents for the placing of insurance, whether fire, life or accident, or receive profit by way of commissions, through or by reason of the placing of any such insurance.

That the following be added as Section 90A (in substitution for proposed amendment No. 15, page 5):—

"Wherever any bank makes advances upon the security of any property, real or personal, moveable or immoveable, whether by way of

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mortgages, hypothecque, warehouse receipt, bill of lading or other document of title involving the giving by the borrower of insurance as collateral security, such insurance shall be effected by or through an agency named by such borrower and the bank shall not bring pressure to bear upon the borrower in determining the agency through which such insurance shall be placed."

FRIDAY, May 18, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and

Messrs. Benoit, Bird, Black (Yukon), Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Waterloo), Fafard, Fielding, Forke, Fortier, Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Humphrey, Irvine, Jacobs, Jelliff, Johnston, Kellner, Ladner, MacKinnon, Macphail (Miss), McCrea, McKay, McQuarrie, Marler, Maybee, Milne, Mitchell, Morin, Papineau, Porter, Power, Rankin, Reed, Robichaud, Bobitaille, Senn, Shaw, Speakman, Spencer, Stevens, Stork, Tobin, Vien, Woods, Woodsworth.

Mr. Fielding gave notice of proposed amendments to Schedule G of Bill No. 83 (*See end of this day's Proceedings.*)

On motion of Mr. Carmichael, it was ordered, that consideration of the proposed amendment to amend section 5 of Bill No. 83, by striking out the words "thirty-three" in the fourth and eighteenth lines thereof, and substituting the words "twenty-four" therefor, be made first order on Tuesday next, 22nd instant.

The Committee then resumed consideration of Bill No. 83, an Act respecting Banks and Banking.

Section 54 further considered, and on motion of Mr. Fielding, amended as follows:—

(1) By striking out paragraphs (m) and (n) under the heading "Liabilities" in subsection 2.

(2) By striking out paragraph (k) under the heading "Assets" in subsection 2 and substituting the following:

(k) call and short (not exceeding thirty days) loans in Canada on stocks, debentures and bonds and other securities of a sufficient marketable value to cover.

(3) By striking out paragraph (l) under the heading "Assets" in subsection 2 and substituting the following:

(l) call and short (not exceeding thirty days) loans elsewhere than in Canada on stocks, debentures and bonds and other securities of a sufficient marketable value to cover.

(4) By striking out paragraph (m) under the heading of "Assets" in subsection 2 and substituting the following:

(m) other current loans and discounts in Canada (less rebate of interest), after making full provision for all bad and doubtful debts.

(5) By striking out paragraph (n) under the heading of "Assets" in subsection 2 and substituting the following:

(n) other current loans and discounts elsewhere than in Canada (less rebate of interest), after making full provision for all bad and doubtful debts.

(6) By striking out paragraph (q) under the heading of "Assets" in subsection 2 and substituting therefor the following:

(q) *Non-current Loans*, estimated loss provided for.

(7) By striking out the word "and," the first word in line two on page twenty-three, and substituting therefor the number "3" as a subsection number and by changing the subsection numbers 3, 4 and 5 to 4, 5 and 6.

Paragraph (r) under the heading "Assets" being read, Mr. Woodsworth moved that the same be amended by inserting the words "and at the assessed value" after the word "cost."

The question being put on the amendment, it was negatived on division.

Paragraph (r) being again read, Mr. Jelliff moved that the same be amended by inserting the words "and at a fair market value" after the word "cost."

The question being put on the amendment, it was negatived on division: yeas, 11; nays, 15.

Mr. Jelliff having questioned the correctness of this division, a second division was taken, and the amendment was again negatived: yeas, 12; nays, 20.

Paragraph (r) was then declared adopted without amendment.

Subsection 3 of section 54 being read, Mr. Coote moved that section 54, subsection 3 be amended by adding at the end thereof the following proviso:

"Provided however that such statement shall include and show a list of the premises owned by the bank and their value as last assessed by the municipality in which the premises are severally situate."

The question being put on the amendment, it was negatived on division: yeas, 6; nays, 19.

The question being again put on subsection 3 of section 54, it was amended by inserting "and 3" after "2" on line 2 thereof, and adopted as so amended. Subsections 4 and 5 of section 54 read and adopted.

Mr. Fielding moved that a new subsection be added to section 54, as follows:

"Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank's interest in the corporation; and the shareholders and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed the shareholders and auditors of such controlled corporations."

Mr. Marler moved that the said proposed new subsection be amended by striking out the words "the shareholders and" on line 7 and the words "shareholders and" on lines 9 and 10 thereof.

Ordered to stand for further consideration.

The Committee then adjourned until Monday next at 11 o'clock a.m.

NOTICE OF MOTION.

Proposed amendments by Mr. Fielding:—

That Schedule G to section 112 of Bill No. 83 be amended as follows:

1. By striking out Items numbered 16 and 17 under the heading 'Liabilities', and renumbering items 18 and 19 as 16 and 17.

2. By striking out Item No. 15 on the 'Assets' side and substituting the following:—

15. Other current loans and discounts in Canada, *after making provision for all bad and doubtful debts.*

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3. By striking out Item No. 16 on the 'Assets' side and substituting the following:—

16. Other current loans and discounts elsewhere than in Canada, *after making full provision for bad and doubtful debts.*

4. By striking out Item No. 20 on the 'Assets' side and substituting the following:—

20. Non current loans, *estimated loss provided for.*

5. By renumbering Item No. 27 under the heading 'Assets' as No. 28 and by inserting as Item No. 27 under the heading of 'Assets' the following:—

27. Shares of and Loans to controlled companies.

MONDAY, May 21, 1923.

The Committee met at 11 o'clock a.m. Present: Mr. Maclean (Halifax) in the Chair, and

Messrs. Bird, Boivin, Black (Yukon), Carmichael, Carruthers, Chaplin, Clark, Coote, Drayton (Sir Henry), Fafard, Fielding, Forke, Fortier, Good, Grimmer, Hanson, Hughes, Humphrey, Irvine, Jelliff, Kellner, King (Huron), Ladner, Mackinnon, Power, Senn, Shaw, Speakman, Spencer, Woods, Woodsworth.

Mr. Carmichael gave notice that at the next meeting of the Committee he will move the following resolution:—

Resolved that this Committee, pursuant to the powers and duties to it referred by the House, to examine and report on Bill 83, do forthwith report the said Bill to the House with a recommendation that the charters of the several Banks in schedule A enumerated be extended to the first day of July, 1924, the necessary amendment to the Bill for such purpose to be made, and with the further recommendation that the Government do appoint a Royal Commission to make a thorough enquiry during the ensuing year into the whole field of Banking, Finance and Credit, and report to the next Session of Parliament.

Mr. Kellner gave notice that he will move that his proposed amendment, in respect to section 80 of the Bill, voted down on division on the 17th inst, be reconsidered by the Committee, as amended and limited to exemptions of personal and movable property, as by provincial enactment at the date of the passing of this Act provided.

Mr. Kellner's proposed amendment reads as follows:—

"34. That section 80 be amended by adding after the word "property" in the third line thereof the following words:—

"Provided however that no mortgage or hypothec shall be taken, held or disposed of in respect to or be deemed to include any property which by any statutory enactment is exempt from seizure under writs of execution."

The Committee then resumed consideration of Bill No. 83, An Act respecting Banks and Banking.

Section 18, subsection 3, again read. *

Mr. Coote moved that his amendment proposed on the 9th May be substituted by the following:

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"That subsection 3 be amended by adding after "bank," line 4, the words 'and such guarantee and pension funds whether contributed out of the funds of the bank or not shall be invested in securities in which a trustee under The Trustee Acts of any province may invest,' and by striking out all the words after 'bank' on line 4 of said subsection 3."

Ordered to stand for further consideration.

Section 28 again read.

Mr. Fielding moved that section 28, subsection 4, of Bill No. 83, be struck out and the following substituted therefor:—

4. A record shall be kept of the attendance at each meeting of directors. A summary thereof, prepared so as to show the total number of meetings held and the number attended by each director shall be sent to each shareholder with the notice of the annual meeting required by Section twenty-one; *and such summary may state the nature and extent of the services rendered by any director who, by reason of residing at a point remote from the chief office of the bank, has been unable to attend meetings of directors.*

The question being put on the amendment, it was resolved in the affirmative. Section 28 was then adopted as amended.

Section 30 again read.

Mr. Fielding moved that section 30 of Bill No. 83 be struck out and the following substituted therefor:

The directors may appoint as many officers, clerks and servants as they may consider necessary for the carrying on of the business of the bank, *and may authorize any officer of the bank to make such of these appointments as they may deem expedient.*

(2) Such officers, clerks and servants may be paid such salaries and allowances as the directors *or such officer, in the case of appointments made by him,* consider necessary.

(3) The directors before permitting any general manager, manager, or other officer, clerk or servant of the bank to enter upon the duties of his office, *and any officer, authorized as aforesaid, before permitting any officer, clerk or servant of the bank appointed by him to enter upon the duties of his office,* shall require him to give a bond, guarantee or other security to the satisfaction of the directors *or such officer as the case may be,* for the due and faithful performance of his duties.

The question being put on the amendment, it was resolved in the affirmative.

Section 54 again read.

Mr. Fielding moved that the following new subsection 4 be inserted:—

4. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank's interest in the corporation; and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed auditors of such controlled corporation, *and the shareholders of the bank at every annual general meeting shall appoint such person to act as proxy for the bank at any and all meetings of such controlled corporation as they may see fit.*

The question being put on the amendment, it was resolved in the affirmative. Subsections 3, 4 and 5 of the Bill to be renumbered as 5, 6 and 7.

The Committee then adjourned until Wednesday, May 23, at 11 o'clock a.m.

APPENDIX No. 2

NOTICE OF MOTION

By Mr. FIELDING (May 23):—

That subsection one of section 113 be amended by striking out all the words after "signed" in the tenth line down to the end of the said subsection.

By Mr. FIELDING (May 23):—

That subsection 5 of section 113 of Bill No. 83 be amended by adding after paragraph (e) the following:—provided however, that any loan falling within this subsection may be included amongst current loans if the directors declare that after due inquiry they have approved such loan as a current loan.

WEDNESDAY, May 23, 1923.

The Committee met at 11 o'clock a.m. Present: Mr. Maclean (Halifax) in the Chair, and

Messrs. Baxter, Benoit, Bird, Black (Yukon), Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Chevrier, Clark, Clifford, Coote, Drayton (Sir Henry), Duncan, Elliott (Dundas), Elliott (Waterloo), Fafard, Fielding, Fortier, Garland (Bow River), German, Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston, Kellner, King (Huron), Ladner, Laflamme, Macdonald (Pictou), Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, McMaster, McMurray, McQuarrie, Marler, Maybee, Milne, Mitchell, Morin, Power, Rankin, Rhéaume, Robichaud, Robitaille, Ryckman, St. Père, Sales, Senn, Shaw, Speakman, Spencer, Stork, Tobin, Vien, Woods, Woodsworth.

Notice of further proposed amendments to Bill No. 83 was given by Mr. Shaw and by Mr. Coote. (*See end of this day's Proceedings.*)

The Committee proceeded to the consideration of Mr. Carmichael's motion that it be "Resolved that this Committee, pursuant to the powers and duties to it referred by the House, to examine and report on Bill 83, do forthwith report the said Bill to the House with a recommendation that the charters of the several banks in schedule A enumerated be extended to the first day of July, 1924, the necessary amendment to the Bill for such purpose to be made, and with the further recommendation that the Government do appoint a Royal Commission to make a thorough enquiry during the ensuing year into the whole field of Banking, Finance and Credit, and report to the next session of Parliament."

And a debate arising thereon—

At one o'clock, the Committee took recess until 4 o'clock p.m.

AFTERNOON SITTING

4 o'clock p.m.

The Committee resumed consideration of Mr. Carmichael's motion.

After further debate, by leave of the Committee, the question was first put on Mr. Speakman's proposed amendment—

"That section five of Bill 83 be amended by striking out the words 'thirty-three' in the fourth and eighteenth lines thereof, and substituting the words 'twenty-four' therefor."

Which amendment was negatived on division: Yeas, 17; nays, 36.

The question being then put on Mr. Carmichael's motion, it was negatived on division: Yeas, 12; nays, 36.

Mr. Woodsworth moved that section five of Bill 83 be amended by striking out the words 'thirty-three' in the fourth and eighteenth lines thereof and substituting the words 'twenty-eight' therefor.

* The question being put on the amendment, it was negatived on division: Yeas, 18; nays, 35.

Mr. Shaw moved that Sir Montague Allan, D. C. Macarow, and C. C. Kippin, respectively former president, general manager, and assistant general manager, of the Merchants Bank, be forthwith summoned to give evidence before the Select Standing Committee on Banking and Commerce.

The question being put on Mr. Shaw's motion, it was negatived on division: Yeas, 22; nays, 26.

Mr. Bird gave notice that he will move at a subsequent meeting that two witnesses conversant with the Federal Reserve system of the United States be called to give evidence before this Committee.

The Committee then adjourned until Monday next, at 11 o'clock a.m.

NOTICES OF MOTIONS

By Mr. Shaw:

That Section 19 be amended by adding thereto the following:—

(2) No person who occupies the office of a Minister of the Crown in the Government of the Dominion or of any Province of Canada, shall be eligible to hold or occupy, and shall not hold or occupy the office of director of any bank.

(3) Any violation of the provisions of Section 19 (2) shall be and be deemed to be an offence against this Act, and subject to the penalty by Section 157 of this Act provided.

By Mr. Coote:

That Bill 83 be amended by adding thereto the following section:—

"Banks and branches thereof situate in Canada elsewhere than in cities and towns having a population of over ten thousand population according to the last census, shall remain open for and carry on and transact all the business of a bank as by this Act authorized, on each and every day except bank holidays and Saturdays until the hour of four o'clock in the afternoon."

That Schedule "G" be amended by inserting on Page 83 of the Bill, after the paragraph commencing with the word "aggregate" in line 9, the following paragraph:—

"Aggregate amount of loans to joint stock companies in which Directors of the Bank hold a majority of the shares."

That Schedule "G" be amended by striking out under "liabilities" No. 7 "deposits elsewhere than in Canada" and substituting the following:—

"Deposits in Great Britain; deposits in British Colonies; deposits in United States of America; deposits in other foreign countries."

That Schedule "G" be amended to show under "Liabilities":—

1. Loans secured by chattel mortgage.
2. Loans secured by mortgage on real estate.

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That Item No. 11 under "assets" be struck out and the following substituted therefor:—

1. Canadian municipal securities.

2. British, foreign and colonial public securities other than Canadian.

That under Item No. 12, "stocks at market value" should be shown separately.

That Item No. 14 under "Assets" be struck out and the following substituted:—

Call Loans in Great Britain.

" British Colonies.

" United States of America.

" Other foreign countries.

That Schedule "G" be amended to show deposits and loans in each province in Canada.

MONDAY, May 28, 1923.

The Committee met at 11 o'clock, a.m. Present: Mr. Maclean (Halifax), in the Chair, and Messrs. Baxter, Bird, Black (Yukon), Caldwell, Carmichael, Carruthers, Chaplin, Drayton (Sir Henry), Elliott (Dundas), Fielding, Forke, Garland (Bow River), Good, Grimmer, Hanson, Hatfield, Hodgins, Humphrey, Irvine, Jelliff, Kellner, Ladner, Mackinnon, Maclean (York), Macphail (Miss), McCrea, McKay, Milne, Rankin, Sales, Shaw, Speakman, Spencer, Stork, Woodsworth.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 5 again read, and, on motion of Mr. Fielding, amended by striking out the first subsection thereof and substituting therefor the following:—

Each of the several banks under the name mentioned in Schedule A to this Act is, and shall continue to be, a body politic and corporate until the first day of July, one thousand nine hundred and thirty-three, and this Act shall form and be the charter of each of the said banks until the first day of July aforesaid. The chief office of each bank, and, subject to the provisions of this Act with regard to increase or decrease, the amount of its authorized capital stock, divided into shares of one hundred dollars each, shall be as set out in the Schedule.

Section 5 adopted as amended.

Section 61, subsection 5, again read, and ordered to stand for further consideration.

By leave of the Committee, Mr. R. P. Sparks, representing the Canadian Garments Association, was heard on the provisions of section 88A, and examined thereon. Witness retired.

Section 156 again read together with Mr. Fielding's proposed amendment thereto by adding the following as a new subsection 3:—

3. The Minister may, upon the application of any interested person, require that any person who receives money on deposit or received money for transmission to a foreign country without being authorized so to do, either by or under the authority of a statute lawfully enacted, shall make to the Minister

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in such form as the Minister may prescribe, a return respecting the business so carried on; or the Minister may direct an inquiry into such business and that a report be made to him thereon by any one or more persons whom he may select from the list of persons eligible to audit the affairs of a bank, or by any other person whom he may designate for that purpose; and the Minister may, after due consideration of such report, require that such business be discontinued; or that security be deposited as a condition of the continuance thereof, to such extent and in such manner as the public interest may seem to require; and failure to comply with such requirement, within such time as the Minister shall allow, shall be an offence against this Act; and if the offender be a body corporate, then every officer of such body corporate shall be guilty of such offence.

Ordered to stand for further consideration.

At one o'clock, the Committee took recess until 4 o'clock, p.m.

Four o'clock, p.m.

With the unanimous consent of the Committee, before having proceeded, to do any business, the chairman adjourned the meeting until to-morrow (Tuesday) at 11 o'clock, a.m.

TUESDAY, May 29, 1923.

The Committee met at 11 o'clock, a.m. Present: Mr. Maclean (Halifax), in the Chair, and Messrs. Baxter, Benoit, Bird, Black (Yukon), Cahill, Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Chevrier, Coote, Drayton (Sir Henry), Duncan, Fafard, Fielding, Forke, Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Irvine, Jacobs, Jelliff, Johnston, Kellner, Ladner, Mackinnon, Maclean (York), Macphail (Miss), McCrea, Marler, Mewburn, Mitchell, Papineau, Rankin, Robitaille, Ryckman, Sales, Senn, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Vien, Woods, Woodsworth.

Mr. Fielding gave notice of a proposed amendment to section 112 (omitted on May 18). (*See end of these Proceedings.*)

Mr. H. T. Ross, secretary Dominion Bankers' Association, was called and examined on the "central gold reserves" by Mr. Maclean (York).

The Committee then resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 156 reconsidered. On motion of Mr. Fielding, sections 156A and B were struck out, and the following new subsection 3 was added to section 156:—

3. The Minister may, upon the application of any interested person, require that any person who receives money on deposit or receives money for transmission to a foreign country without being authorized so to do, either by or under the authority of a statute of Canada or any province thereof, shall make to the Minister in such form as the Minister may prescribe, a return respecting the business so carried on; or the Minister may direct an inquiry into such business and that a report be made to him thereon by any one or more persons whom he may select from the list of persons eligible to audit the affairs of a bank, or by any other person whom he may designate for that purpose; and the Minister may, after due consideration of such return or report, require that

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such business be discontinued, or that security be deposited as a condition of the continuance thereof, to such extent and in such manner as the public interest may seem to require; and failure to comply with such requirement, within such time as the Minister shall allow, shall be an offence against this Act; and if the offender be a body corporate, then every officer of such body corporate shall be guilty of such offence.

Section 88A again read.

Mr. Coote moved that section 88A be amended by adding after the words "eighty-eight" in the second line thereof the following words: "but not including subsections 2, 8 and 12 of section 88", and by adding thereto as subsection 6A the following:—

"6A. Any security given in respect of a loan by a bank under subsections 2, 8 and 12 of section 88 of this Act shall be null and void as against subsequent purchasers, creditors or mortgagees, without notice thereof, unless the instrument securing such loan is registered in the office for the registration of chattel mortgages for the registry district in which the property covered by such security is situate, and such instrument shall be subject to all the applicable conditions of registry pertaining to the registration of chattel mortgages."

Ordered to stand for further consideration.

Section 61, subsection 4, again read, and agreed to on division:—Yeas, 24; nays, 12.

Mr. Irvine gave notice that at a subsequent meeting he will move for the reconsideration of said subsection 4 of section 61, and will then move that the same be amended by substituting "one" for "three" on line 2, and "three" for "a fourth" on lines 2 and 3 thereof.

Section 61, subsections 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17 and 18 read and adopted.

Mr. Shaw moved that the Chairman do forthwith report to the House, the action taken by this Committee in reference to a motion to call before it as witnesses, Sir Montagu Allan, D. C. Macarow and C. C. Kippen, and that the Chairman do thereafter in due course seek the approval of the House to the action of the Committee in connection therewith. (*See Minutes of Proceedings, May 23.*)

The question being put on Mr. Shaw's motion, it was negatived on a show of hands:—Yeas, 14; nays, 23.

The names being called for, they were taken down as follows:—Yeas: Messrs. Baxter, Caldwell, Carmichael, Coote, Good, Guthrie, Jelliff, Kellner, Garland (Bow River), Maclean (York), Macphail (Miss), Shaw, Speakman, Spencer, Woods, and Woodsworth.—16.

Nays: Messrs. Boivin, Casgrain, Chaplin, Chevrier, Clifford, Drayton (Sir Henry), Duncan, Fafard, Fielding, Hanson, Hatfield, Jacobs, Ladner, MacKinnon, McCrea, Marler, Mewburn, Mitchell, Papineau, Ryckman, Stevens and Vien.—22.

And the motion was again declared by the Chairman as passed in the negative.

The Committee then adjourned until to-morrow at 11 o'clock, a.m.

NOTICE OF MOTION

By Mr. Fielding:—That the following new subsections 4 and 5 be added to section 112:—

112 (4). The Minister may also call for *other or special returns* from any bank, and may require that the bank shall transmit or deliver such other or special returns at monthly or other prescribed periods, or whenever in his judgment they are necessary to afford a full and complete knowledge of its condition.

(5) *The Minister may prescribe the time within which such other or special returns shall be transmitted or delivered to him; but unless otherwise prescribed the time within which any monthly or other periodic return shall be transmitted or delivered, shall be the time allowed by this section for a monthly return; provided that the Minister may extend the time for transmitting any special return for such further period, not exceeding thirty days, as he thinks expedient.*

WEDNESDAY, May 30, 1923.

The Committee met at 11 o'clock, a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Benoit, Bird, Boivin, Black (Yukon), Cahill, Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Clark, Clifford, Coote, Drayton (Sir Henry), Duncan, Elliott (Dundas), Fafard, Forke, Fortier, Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Hudson, Humphrey, Irvine, Jelliff, Johnston, Kellner, Ladner, Mackinnon, Maclean (Halifax), Macphail (Miss), McCrea, McKay, McQuarrie, Marler, Maybee, Mewburn, Milne, Mitchell, Morin, Papineau, Robb, Robichaud, Robitaille, Ryckman, Senn, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Woods, Woodsworth.

A memorandum from the clerk of the Committee on the division taken yesterday on Mr. Shaw's motion, was read by the Chairman, as follows:

"In the division list of the vote on Mr. Shaw's motion as announced yesterday, there were two errors of addition. The correct vote, according to that list, was: Yeas, 16; Nays, 22, instead of 18 and 21, as read from the Chair. Moreover, two members recorded in that list as having voted "Yea," are reported to have voted "Nay," making, if so, the correct vote 14 yeas and 24 nays, as against 14 yeas and 23 nays as recorded by the show of hands."

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 56 reconsidered.

Mr. Fielding moved that the same be amended as follows:—

By striking out subsection 1 and substituting therefor the following:—

(1) The affairs of the bank shall be audited by two persons, residing in Canada, each one of whom shall be an accountant who has for at least six years preceding the date of his appointment, as hereinafter provided, practiced his profession in Canada, and who shall also be a member in good standing of an Institute or Association of Accountants incorporate under the authority of the Legislature of any province of Canada.

By striking out subsection 2 and substituting therefor the following:—

(2) A list or lists shall be furnished to the Minister and also to the Association by each such incorporated Institute or Association of Accountants on or before the thirty-first day of July, nineteen hundred and twenty-three, and

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thereafter on or before the thirtieth day of June in each year, of all members of their corporation in good standing whose names are entitled to be included therein as determined by the provisions of the last preceding subsection, together with their addresses and the names of the firms, if any, of which they are members, and such list or lists shall be certified under their corporate seals respectively.

The question being put on the foregoing amendments, they were agreed to.

Subsection 3 of section 56 read and struck out.

Subsections 4 and 5 of section 56 were struck out and the following substituted therefor:—

4. The Minister may, not later than the thirtieth day September next following, remove from such list or lists the name of any person of whose appointment to be an auditor of a bank he may disapprove.

5. The Minister shall, as soon thereafter in each year as may be convenient, cause to be inserted in two successive issues of the *Canada Gazette*, a public notice containing the names and other particulars of persons included in such list or lists and not removed therefrom by the Minister, and the persons included in such published notice shall be deemed qualified for appointment as auditors of a bank.

Subsection 6 of section 56. Mr. Fielding moved that the same be struck out and the following substituted therefor:—

6. The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank; but if any person has acted for four years in succession as auditor of the affairs of any one bank, or if any member or members of the same firm have either or in the aggregate acted for four years in succession as auditor or auditors respectively of the affairs of any one bank; such person or any member of such firm shall not be again appointed to audit the affairs of such bank until a further period of one year shall have elapsed, provided, further that one such person or any member of one such firm may be appointed during the two years next ensuing after the passing of this Act.

Mr. Hanson moved in amendment that all the words after “bank,” line 4, to the end of the said subsection be struck out.

Debated, and ordered to stand for further consideration.

Subsection 7 of section 56 read and adopted.

Subsection 8 of section 56 struck out and the following substituted therefor:—

8. The remuneration of auditors shall be fixed by the shareholders at the time of their appointment, and in the event of any vacancy and the appointment of another auditor under the next preceding subsection, the remuneration so fixed shall be divided between them as the directors shall consider just and reasonable.

Subsection 9 of section 56 read and amended by inserting the words “and receive” after “require,” line 3.

Subsection 10 of section 56 read. Mr. Woodsworth moved that the same be struck out and the following subsections inserted:—

“(17) The Governor in Council shall appoint a competent person who shall be an officer of the Government with the title of Government Auditor, whose duty shall be to examine all reports of auditors made under this Act and require all such auditors to report to him upon the adequacy of the procedure adopted by

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the bank for the safety of its creditors and shareholders, and as to the sufficiency of their own procedure in auditing the affairs of the bank, and he may enlarge or extend the scope of the audit, or direct that any other or particular examination be made or procedure established in any particular case, as the public interest may seem to require.

"(18) The Government Auditor shall have all the powers of inquiry with respect to the duties to be performed by him conferred upon commissioners appointed under the Inquiries Act.

"(19) The Government Auditor shall annually make report in writing to the Minister of all examinations and inquiries made by and directed to be made by him and his finding and recommendations in respect thereto, and such report shall be laid before Parliament within twenty-one days from the commencement of each session thereof."

Debated, and ordered to stand for further consideration.

At one o'clock, the Committee took recess until 8.30 p.m.

— EVENING SITTING

8.30 o'clock p.m.

Mr. Coote gave notice of a proposed amendment to section 76. (*See end of this day's Proceedings.*)

Mr. Coote moved that Sir John Aird and Sir Frederick Williams-Taylor be recalled before the Committee to give further evidence.

The question being put on Mr. Coote's motion, it was negatived on division:—yeas, 11; nays, 20.

Mr. Spencer moved that W. L. Baker, Toronto, be summoned to appear before the Committee.

The question being put on Mr. Spencer's motion, it was negatived on division:—yeas, 13; nays, 23.

Section 56, subsection 6 of the Bill again read, and struck out, and the following substituted therefor:—

6. The shareholders shall at each annual general meeting appoint two persons, not members of the same firm whose names are included in the last published list, to audit the affairs of the bank; but if the same two persons, or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any one bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed.

Subsection 10 again read together with Mr. Woodsworth's amendment thereto.

The question being put on Mr. Woodsworth's amendment, it was negatived on division by a show of hands:—yeas, 17; nays, 22.

The names being called for, they were taken down as follows:—yeas: Messrs. Baxter, Bird, Caldwell, Carmichael, Coote, Elliott (Dundas), Garland (Bow River), Good, Hodgins, Jelliff, King (Huron), Macphail (Miss), Milne, Shaw, Speakman, Spencer, Woods, and Woodsworth—18.

Nays: Messrs. Benoit, Black (Yukon), Casgrain, Chaplin, Clark, Duncan, Fafard, Fielding, Fortier, Hatfield, MacKinnon, McCrear, McKay, McQuarrie, Marker, Maybee, Mewburn, Mitchell, Morin, Robichaud, Ryckman, Senn, Stevens, Stork, and Tobin—25.

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And the amendment was declared by the Chairman as passed in the negative.

Subsection 10 of section 56 of the Bill was then agreed to.

Subsection 11 of Section 56, read and amended by inserting after "report," line 1, the words "individually or jointly as to them may seem fit," and by inserting after "address," line 13, the words "and the said report shall be incorporated in the minutes of the directors' meeting first following the receipt of the said report."

The Committee then adjourned until to-morrow (Thursday), at 11 o'clock a.m.

NOTICE OF MOTION

By Mr. Coote:

That Section 76, Subsection 2, be amended by adding the following paragraph:

"Lend money or make advances in excess of 10 per cent of its paid-up capital to any company or corporation in which the President, Directors, Manager or other officers thereof is or are directly or indirectly interested without the unanimous consent of all the Directors present at a special board meeting called for the purpose of passing upon such loan or advances."

"Lend money or make advances in excess of 10 per cent of its paid-up capital to any foreign person, company or corporation or upon the securities of such foreign person, company or corporation or in excess of 25 per cent of its paid-up capital to any person residing in Canada or any company or corporation having its head office in Canada, or upon the securities of such person, company or corporation."

THURSDAY, May 31, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Benoit, Bird, Black (Yukon), Carmichael, Carruthers, Casgrain, Chaplin, Clark, Clifford, Coote, Descoteaux, Drayton (Sir Henry), Duncan, Elliott (Dundas), Elliott (Waterloo), Fafard, Fielding, Fork, Garland (Bow River), Good, Guthrie, Hanson, Harris, Hatfield, Hodgins, Irvine, Jelliff, Johnston, Kellner, Ladner, Mackinnon, Maclean (Halifax), Maclean (York), Macphail (Miss), McCrea, Marler, Maybee, Mewburn, Mitchell, Morin, Papineau, Rankin, Robitaille, Ryckman, Sales, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stork, Tobin, Woods and Woodsworth.

Notice of proposed amendments to Bill No. 83 was given by Messrs. Irvine, Spencer, Good and Coote. (*See end of this day's Proceedings.*)

Mr. Bird moved that two witnesses conversant with the Federal Reserve System of the United States be called to give evidence before the Committee.

The question being put on Mr. Bird's motion, it was negatived on division: Yeas, 11; Nays, 23.

Mr. H. T. Ross was recalled and further examined by Mr. Maclean (York.)

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 56 further considered.

Subsections 12, 13 and 14 read and adopted.

Subsection 15 read and amended by striking out the words "supplied to any shareholder applying therefor" and by inserting in lieu thereof the words "mailed to every shareholder at his last known address."

Subsection 16 read together with Mr. Fielding's amendment thereto, and ordered to stand for further consideration.

A new subsection 17 added as follows: "17. No person shall be appointed an auditor of a bank, if such person or any member of his firm is a Director or officer of such bank.

Section 61, subsection 3 again read and agreed to, and the section adopted.

Section 18 further considered.

Subsection 3 amended by striking out all the words after "bank," line 4, and by inserting in lieu thereof the following words:"

"And such guarantee or pension fund, whether contributed in whole or in part out of the funds of the bank or not, shall be invested in securities in which a trustee may invest under The Trust Companies Act 1914. Any conversion of investments rendered necessary by this provision shall be made within such time or times as the Minister may deem reasonable."

Section 18 was then adopted as amended.

On motion that subsection 7 of section 88, Bill No. 83, be reconsidered and that the amendment thereto, No. 17, Page 6, of the printed notices of motion, dated May 8th, adopted on the 15th day of May instant, adding the words "and any claim by an unpaid vendor of or in respect of such products, goods, wares and merchandise to the amount remaining unpaid" after the word "months" in the eleventh line thereof, be rescinded.

The Chairman ruled all such motions of reconsideration out of order, except by the unanimous consent of the Committee.

Section 96 further considered.

Subsection 4 again read and amended by adding the words "or summons" after the word "order" in the first line, and by adding the same words after the word "thereof" in the last line.

And ordered that the said subsection 4 be referred to a sub-Committee composed of Messrs, Mitchell, Baxter and Shaw to report on the constitutionality thereof.

The Committee adjourned until to-morrow at 11 o'clock a.m.

NOTICES OF MOTIONS

By Mr. Irvine:

That the word "one" be substituted for the word "three" in the second line of subsection 4, section 61, and that the words "a fourth" of the third line of the same subsection be struck out and the word "three" be substituted therefor.

By Mr. Spencer:

That the following words be added to Section 56A:

"The report called for under this Section be published."

By Mr. Spencer:

That the following words be added to subsection 4, Section 54:—

The profit and loss statement shall include and show on the one part the amount of

- (a) Balance of Profit and Loss account carried forward from previous year.
- (b) Rebate of Interest on unmatured bills as at close of previous year.

(c) Gross Profits, including balances of all Interest, Commission, Exchange and other Revenue producing accounts.

(e) Bad Debts Recovered, previously written off, and the statement shall include and show on the other part

(g) Sundry appropriations or disbursements not included under foregoing heads, and to be shown in detail.

(j) Balance at credit of Profit and Loss Account.

(To be substituted for proposed amendment on page 31.

That section 88A be amended by adding after the words, "eighty-eight" in the second line thereof the following words: "but not including subsections 2, 8 and 12 of section 88," and by adding thereto as subsection 6A the following:

6A. Any security given in respect of a loan by a bank under subsections 2, 8 or 12 of section 88 of this Act shall be null and void as against subsequent purchasers, creditors or mortgagees, without notice thereof, unless an instrument in the form set out in schedule F2 to this Act, or to the like effect, which shall contain the name of the bank, the name and address of the borrower, the amount actually loaned, the term of such loan and the section and subsection of this Act under which the said loan is made, be registered within days from the date of the execution thereof, in the office and in the like manner as by this section provided with respect to the document in subsection one herof mentioned. The provisions of subsections 2, 3, 4, 5 and 6 of this section as to the notice of intention and the document evidencing same, shall in like manner apply to the instrument in this subsection provided for."

By adding as Schedule F2 to the Act, the following:

To whom it may concern:

Name of person, firm or company. P.O. Address
 hereby gives notice that the Bank has on the
 day of , 19 , loaned and actually advanced to me (or name of
 firm of company) the sum of dollars for the term of
 from the date hereof, under the authority of subsection
 of section 88 of the Bank Act.

Dated at this day of , 19 .

By Mr. Good:

AN ACT TO AMEND THE BANK ACT

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Section 2 of The Bank Act is amended by inserting after subsection (a) the following subsection:—

'(aa) Community Bank means any Bank without branches to which this Act applies and which is established in and named after any local community.'

2. Section 8 of the said Act is amended by adding thereto the following proviso:—

'Provided that the name of a Community Bank shall be The Community Bank of.....(name of the community).'

3. Section 9 of the said Act is hereby amended by inserting after the word 'Act' in the second line thereof the following words:—'or in the case of a Community Bank in the form set forth in Schedule (BB) to this Act.'

4. Section 10 of the said Act is hereby amended by inserting the words 'except in the case of a Community Bank' after the word 'incorporated' in the first line thereof, and by adding to said section 10 the following proviso:—

'Provided however that the capital stock of any Community Bank shall not be less than one hundred thousand dollars and shall be divided into shares of twenty dollars each.'

5. Section 13 of the said Act is hereby amended by inserting after the word 'Minister' in the fourth line thereof the following words 'or in the case of a Community Bank so soon as a sum not less than one hundred thousand dollars of the capital stock of the Bank has been bona fide subscribed and a sum not less than fifty thousand dollars thereof has been paid to the Minister.'

6. Section 17 of the said Act is amended by inserting after the word 'dollars' in the fifth line thereof the words 'or in the case of a Community Bank, the sum of one thousand dollars.'

7. Section 61 of the said Act is amended by inserting immediately after subsection (b) thereof the following subsection:—

'(c) No Community Bank shall issue or re-issue such notes until the Government of the Province in which such Community Bank is established guarantees the payment in the event of the suspension by such bank of payment in specie or Dominion notes of its liabilities as they accrue, of the notes then issued or re-issued by such bank intended for circulation and then in circulation and interest thereon.'

8. Section 76 of the said Act is amended by adding at the end of subsection (a) the following proviso:—

'Provided however that a Community Bank shall have only one chief office and shall not open any branch or other agency or office, other than its chief office, except agencies for the redemption and payment of its notes, as provided in Section 70 of the said Act.'

9. Section 94 of the said Act is amended by adding thereto the following proviso:—

'Provided however that no Community Bank shall receive or retain any such sum in discounting any note, bill or other negotiable security or paper bona fide payable at any other Community Bank.'

10. Schedule (BB) is hereby inserted after Schedule (B) to the said Act:—

Schedule BB

An Act to incorporate The Community Bank of.....

WHEREAS the persons hereinafter named, by their petition prayed that an Act be passed for the purpose of establishing a Community Bank in the community known as.....in the Province of.....and it is expedient to grant the prayer of the said petition:—

Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

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1. The persons hereinafter named, together with such others as may become shareholders in the corporation by this Act created, are hereby constituted a corporation by the name of The Community Bank of.....hereinafter called the bank.

2. The capital stock of the Bank shall be.....dollars.

3. The chief office of the Bank shall be at.....in the said Community in the Province of.....

4.shall be the provisional directors of the Bank.

5. This Act shall, subject to the provisions of Section 16 of the Bank Act, remain in force until the first day of July in the year one thousand nine hundred and.....

FRIDAY, June 1, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Benoit, Bird, Black (Yukon), Boivin, Carmichael, Carruthers, Chaplin, Clifford, Coote, Descoteaux, Drayton (Sir Henry), Duncan, Fafard, Fielding, Fortier, Forke, Garland (Bow River), German, Good, Hanson, Harris, Hatfield, Irvine, Jelliff, Johnston, Kellner, King (Huron), Ladner, Mackinnon, Maclean, McCrea, McKay, McQuarrie, Marler, Maybee, Milne, Mitchell, Morin, Papineau, Rankin, Robitaille, Ryckman, Sales, Senn, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stork, Tobin, Woods and Woodsworth

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 88A, subsection 1 read—

Mr. Irvine moved that section 88A be amended as follows:—

1. That subsection 1 be amended by adding after the word "intention" in the third line thereof the words "and of the amount of the loan."

2. That subsection one be amended by striking out the words "after this section comes into force" in the seventh line thereof, and by inserting the words "heretofore or" after the word "security" in the said seventh line.

3. By striking out all the words commencing with the words "A notice" in the eleventh line of subsection one down to the end of the said subsection.

4. That the following be added, as subsection eight, to section 88A:—

"(8) Monthly returns of all documents registered under this section shall be made by the several Assistant Receivers to the Minister not later than the tenth day of the next succeeding month, and such returns shall forthwith be published by the Minister in one issue of the *Canada Gazette*."

The question being put on item 1 of foregoing amendment, it was negatived on division: Yeas, 7; nays, 30.

Items 2, 3 and 4 of the foregoing amendment were then withdrawn by Mr. Irvine.

The question being again put on subsection 1 of section 88A,—

Mr. Coote moved that the same be amended by inserting after the word "document," line 6, the following words "if intended to be given in respect to a loan taken under the provisions of either of subsections 2, 8 and 12 of section 88 shall in addition to the particulars required by the form set out in schedule F specify the amount of the loan intended to be borrowed and the number of the

section and subsection of the Act under which the loan is intended to be taken, and in any and all cases."

The question being put on the foregoing amendment, it was negatived on division: Yeas, 7; nays, 27.

The question being again put on subsection 1 of section 88A of the Bill, it was agreed to.

Section 88A, subsections 2 and 3 read and agreed to.

Section 88A, subsection 4 read and amended by inserting after "security," line 6, the words "under section 88."

Section 88A, subsections, 5, 6 and 7 read and agreed to.

Section 88A was then adopted as amended.

Mr. Baxter, from the sub-Committee appointed yesterday and to whom was referred subsection 4 of section 96, reported a recommendation that the Chairman of the Committee do obtain from the Justice Department an opinion as to the constitutionality of said subsection 4.

Section 56, subsection 16, being again read, was struck out, and the following substituted therefor:

A person appointed under this section to audit the affairs of a bank shall not, during the term for which such person is appointed, either by himself, or by the firm of which he is a member, or by any other member of such firm, accept any retainer or undertake any employment on behalf of or at the instance of such bank or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder; and failure to comply with the provisions of this subsection shall be an offence against this Act.

Section 56 was then adopted as further amended.

Mr. Fielding gave notice of a proposed amendment to sections 159 and 160 of Bill No. 83. (*See end of these Proceedings.*)

Ordered, that consideration of the Private Bills on the Order Paper and certain non-contentions sections of Bill No. 83 be proceeded with on Tuesday next, and that the sections of Bill No. 83 providing for rate of interest, be taken up on Wednesday next.

The Committee then adjourned until Tuesday, June 5, at 11 o'clock a.m.

NOTICE OF MOTION

By Mr. Fielding:—

1. That section 159 of Bill No. 83 be struck out and the following be substituted therefor:

(new matter in italics)

159. Chapter 9 of the statutes of 1913, chapter 1 of the statutes of 1915, and chapter 10 of the Statutes of 1916 are repealed, *save and except that section 112 of said chapter 9 shall remain in force to and including the thirteenth day of September, 1923.*

2. That section 160 of Bill No. 83 be struck out and the following be substituted therefor:

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160. This Act shall come into force on the first day of July, one thousand nine hundred and twenty three, *save and except that sections 112 and 113 thereof shall not come into force until the first day of October, one thousand nine hundred and twenty-three.*

TUESDAY, June 5, 1923.

The Committee met at 11 o'clock, a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Black (Yukon), Carmichael, Carruthers, Casgrain, Chaplin, Coote, Fielding, Garland (Bow River), Good, Hatfield, Hodgins, Hudson, Hughes, Humphrey, Irvine, Jelliff, Johnston, Kellner, Ladner, Mackinnon, Macphail (Miss), McKay, McQuarrie, Malcolm, Rankin, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Woods, Woodsworth.

The Chairman having brought to the attention of the Committee the desire (expressed in a letter to the Chief Clerk of Committees) of Professor Irving Fisher who appeared before the Committee on April 30 and May 1 last, to have a certain number of copies of his testimony sent to him on payment of the usual charge for the same, it was

Resolved unanimously, that Professor Irving Fisher of Yale University, be supplied, without charge, with the number of copies he desires, as a matter of international courtesy.

The Committee then resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 101, subsection 1 read and amended by inserting after "selling," line 2, the words "and purchasing," and by adding the letter "s" to "bank," line 2, and by inserting the words "the respective" after "such," line 3, and by adding the letter "s" to "bank," line 3, and adopted as amended.

Section 101, subsection 2 read and amended by substituting the word "every" for "each," and the word "each" for "such," line 2, and adopted as amended.

Section 102, subsection I read and amended by substituting the word "each" for "such," line 1, and adopted as amended.

Section 103 read and amended by striking out all the words after "bank," line 5, and by inserting in lieu thereof the words "a by-law for the purpose may be passed by the shareholders at the meeting called to approve of the agreement," and adopted as amended.

Section 112, subsections 1 and 2 read and adopted.

Section 112, subsection 3.

Mr. Shaw moved that the words "on or before the second day of the following month," lines 4 and 5, be struck out.

The question being put on Mr. Shaw's amendment, it was negatived on division: yeas, 7; nays, 13.

Subsection 3 of section 112 was then adopted.

Section 112, subsections 4 and 5 read and struck out and the following substituted therefor:—

112 (4). The Minister may also call for other or special returns from any bank, and may require that the bank shall transmit or deliver such other or special returns at monthly or other prescribed periods, or whenever in his judgment they are necessary to afford a full and complete knowledge of its condition.

(5) The Minister may prescribe the time within which such other or special returns shall be transmitted or delivered to him; but unless otherwise prescribed the time within which any monthly or other periodic return shall be transmitted or delivered, shall be the time allowed by this section for a monthly

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return; provided that the Minister may extend the time for transmitting any special return for such further period, not exceeding thirty days, as he thinks expedient.

Section 112 was then adopted as amended.

Section 125 read.

Mr. Hughes moved that section one hundred and twenty-five of the Act be amended by adding at the end of subsection one thereof the following: "provided, however, that any shareholder who is a director, general manager, manager, or other executive officer of the bank shall be liable to an amount equal to three times the par value of the shares held by him in addition to any amount not paid up on such shares.

By leave of the Committee, the foregoing amendment was withdrawn.

Section 125 again read.

Mr. Coote moved that section 125 be amended by striking out the words "to an amount equal to the par value of the shares held by him, in addition", in the fourth and fifth lines thereof.

The question being put on Mr. Coote's amendment, the same was negatived on division: yeas, 8; nays, 13.

Section 125 was then adopted.

The Committee then adjourned until to-morrow at 11 o'clock, a.m.

WEDNESDAY, June 6, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Benoit, Bird, Black (Yukon), Bristol, Caldwell, Carmichael, Carruthers, Casgrain, Chaplin, Chevrier, Clark, Clifford, Coote, Desaulniers, Drayton (Sir Henry), Duncan, Elliott (Dundas), Descoteaux, Fafard, Fielding, Fortier, Garland (Bow River), German, Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Hodgins, Hughes, Humphrey, Irvine, Jacobs, Jelliff, Johnston, Kellner, Ladner, Low, Mackinnon, Maclean (Halifax), Maclean (York), Macphail (Miss), McKay, McMurray, McQuarrie, Marler, Maybee, Mewburn, Milne, Mitchell, Morin, Papineau, Rankin, Robb, Robichaud, Robitaille, Ryckman, St. Père, Sales, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Vien, Woods, Woodsworth.

Mr. Woodsworth gave notice of a proposed amendment to Bill No. 83. (*See end of this day's Proceedings.*)

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 91 read.

Mr. Carmichael moved that section 91 be amended in the following particulars:—

That subsection one be amended by striking out all the words commencing with "but" in the fourth line down to the end of the subsection and by substituting therefor the following: "but no higher rate of interest shall be chargeable by the bank, and the said rate of interest shall be reduced to the rate of seven per centum per annum from the date of judgment in any suit, action or other proceeding for the recovery of the amount due."

By adding as subsection (1A) the following:—

"(1A). In any suit, action or other proceeding concerning a bank loan wherein it is alleged that the amount of interest paid or claimed exceeds the

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rate of seven per centum per annum, the court may reopen the transaction and take an account between the parties, and may, notwithstanding any statement or settlement of account, or any contract purporting to close previous dealings and create a new obligation, reopen any account already taken between the parties, and relieve the person under obligation to pay from payment of any sum in excess of the said rate of interest and if any such excess has been paid, or allowed in account, by the debtor, may order the bank to repay it, and may set aside, either wholly or in part, or revise, or alter, any security given in respect of the transaction."

Mr. Shaw moved in amendment to the foregoing amendment that section 91 of the Bill be struck out and the following substituted therefor:—

"(1) The bank may stipulate for, take, reserve, or exact any rate of interest or discount but not exceeding 7 per cent per annum and may receive and take in advance any such rate.

"(2) If any bank shall stipulate for, reserve, exact, take, receive, or charge a rate of interest greater than 7 per cent per annum then the bank, or any subsequent holder, shall be deemed to have forfeited the entire interest, which the note, bill, or other evidence of debt carries with it or which has been agreed to be paid.

"(3) In the event that a greater rate than 7 per cent per annum has been paid to the bank, then the person by whom it has been paid, or his legal representative, may recover in any court twice the amount of interest thus paid, provided such action is commenced within two years from the time such excess interest was paid.

"(4) In any suit, action or other proceeding concerning a bank loan wherein it is alleged that the amount of interest paid or claimed exceeds the rate of seven per centum per annum, the court may reopen the transaction and take an account between the parties, and may, notwithstanding any statement or settlement of account, or any contract purporting to close previous dealings and create a new obligation, reopen any account already taken between the parties, and relieve the person under obligation to pay from payment of any sum in excess of the said rate of interest and if any such excess has been paid, or allowed in account, by the debtor, may order the bank to repay it, and may set aside either wholly or in part, or revise, or alter, any security given in respect of the transaction."

And a debate arising thereon.

At one o'clock the Committee took recess until 4 o'clock p.m.

AFTERNOON SITTING

Four o'clock p.m.

On motion of Mr. Marler, it was

Resolved, that a report be made to the House recommending that the quorum of the Committee be reduced from twenty-one to fifteen members.

The Committee resumed consideration of section 91 and of the proposed amendments thereto.

And the debate continuing—

At six o'clock, it was resolved, on division, that the Committee do take recess until 8.30 o'clock p.m.

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EVENING SITTING

8.30 o'clock p.m.

The Committee resumed consideration of section 91 and the proposed amendments thereto.

After some discussion, Mr. Spencer moved that the Committee do now adjourn until to-morrow.

The question being put on Mr. Spencer's motion, it was negatived on division: yeas, 11; nays, 20.

After further discussion, the question being put on Mr. Shaw's amendment, the names were called for and were taken down as follows:—

Yeas: Messrs. Bird, Caldwell, Carmichael, Coote, Garland (Bow River), Good, Humphrey, Irvine, Jelliff, Kellner, Macphail (Miss), Milne, Sales, Shaw, Speakman, Spencer, and Woodsworth—17.

Nays: Messrs. Baxter, Benoit, Chaplin, Chevrier, Clifford, Descoteaux, Duncan, Fafard, Hanson, Hatfield, Hughes, Jacobs, Mackinnon, McKay, Marler, Mewburn, Morin, Papineau, Rankin, Robb, Robitaille, Ryckman, Stevens, Stork, Tobin, and Vien—26.

The Chairman declared Mr. Shaw's amendment as passed in the negative.

The question being then put on Mr. Carmichael's amendment, it was negatived on division: yeas, 8; nays, 25.

Section 91 ordered to stand for further consideration.

The Committee then adjourned until to-morrow at 4 o'clock p.m.

NOTICE OF MOTION

Proposed amendment by Mr. Woodsworth.

That Bill No. 83 be amended to the effect that the right of association by employees of banks for all lawful purposes should be recognized.

THURSDAY, June 7, 1923.

The Committee met at 4 o'clock p.m.

Present: Messrs. Baxter, Benoit, Bird, Black (Yukon), Carmichael, Clark, Clifford, Coote, Desaulniers, Descoteaux, Duncan, Fafard, Fielding, Garland (Bow River), Good, Grimmer, Hanson, Harris, Hatfield, Irvine, Jelliff, Kellner, King (Huron), Ladner, Mackinnon, Macphail (Miss), McKay, McQuarrie, Marler, Maybee, Mewburn, Mitchell, Morin, Papineau, Power, Rankin, Robb, Robitaille, Ryckman, St. Père, Senn, Shaw, Sinclair (Queens, P.E.I.), Spencer, Stevens, Tobin, Vien, Woods and Woodsworth.

In the unavoidable absence of the Chairman, Mr. Mitchell took the Chair.

Mr. Woodsworth submitted a corrected draft of his proposed amendment, notice of which was given yesterday. (*See end of this day's Proceedings.*)....

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 92 read and adopted.

Section 93 read.

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Mr. Spencer moved that section 93 of Bill 83 be amended by striking out the word "fifteen" in the twelfth line thereof and substituting the word "ten".

The question being put on Mr. Spencer's motion, it was negatived on division: Yeas, 7; nays, 14.

Section 93 again read.

Mr. Coote moved that section 93 be amended by striking out the words "one-eighth" in the tenth line thereof and substituting the words "one-sixteenth".

The question being put on Mr. Coote's motion, it was negatived on division: Yeas, 8; nays, 22.

The question being then put on section 93, it was agreed to without amendment.

Section 94 read.

Mr. Spencer moved that section 94 of Bill 83 be amended by striking out the words "twenty-five" in the ninth line thereof and substituting the word "ten".

The question being put on Mr. Spencer's motion, it was negatived on division: Yeas, 6; nays, 21.

Section 94 again read.

Mr. Coote moved that section 94 be amended by striking out the words "one-quarter" in the seventh line thereof and substituting therefor the words "one-eighth".

The question being put on Mr. Coote's motion, it was negatived on division: Yeas, 12; nays, 20.

Section 94 was then adopted without amendment.

Section 91 again read.

Mr. Coote moved that section 91, subsection 1, be amended by striking out the words "or discount" in the second line thereof and by striking out the word "may" in the third line and substituting therefore the words "shall not".

The question being put on the principle of Mr. Coote's amendment, it was negatived on division: Yeas, 12; nays, 22.

Section 91 again read.

Mr. Coote moved that section 91 be amended by adding the following subsection thereto. 4.—No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the Bank and the customer.

The question being put on Mr. Coote's motion, it was passed in the affirmative on division: Yeas, 22; nays, 5.

Section 91 again read.

Mr. Coote moved that section 91, subsection 1, be amended by adding thereto the words "the rate of interest or discount charged by the Bank shall appear on the face of the note".

The question being put on Mr. Coote's motion, it was passed in the affirmative on division: Yeas, 18; nays, 13.

The question being then put on section 91 as amended, it was agreed to.

Section 114 again read.

Mr. Fielding moved that subsection 7 of section 114 of Bill No. 83 be amended by striking thereout the first four lines and substituting the following:

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"The notice called for by the next preceding subsection is required to be given twice, namely, during the month of January next after the end of the first two-year period and also during the month of January next after the end of the first five-year period in respect of which"

The question being put on Mr. Fielding's amendment, it was agreed to. Section 114 was then adopted as amended.

Section 122 again read and amended by inserting after "curator", line 1, the words "or liquidator".

Section 122 adopted as so amended.

The Committee then adjourned until to-morrow at 11 o'clock a.m.

NOTICE OF MOTION

Proposed amendment by Mr. Woodsworth.

(Substituted for proposed amendment on page 72.)

That section 30 be amended by adding thereto as subsection (4) the following;

(4) Such officers, clerks or servants shall have and be deemed to have the right of association for all lawful purposes.

FRIDAY, June 8, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax), in the Chair, and Messrs. Baxter, Benoit, Bird, Black (Yukon), Carmichael, Carruthers, Chaplin, Clark, Coote, Drayton (Sir Henry), Duncan, Descoteaux, Elliott (Dundas), Fafard, Fielding, Fortier, Garland (Bow River), Good, Guthrie, Hanson, Hatfield, Hodgins, Irvine, Kellner, Ladner, Mackinnon, Maclean (Halifax), Macphail (Miss), McKay, Marler, Maybee, Milne, Mitchell, Morin, Papineau, Rankin, Rhéaume, Robichaud, Ryckman, St. Père, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Vien, Power, Woods and Woodsworth.

Mr. Coote gave notice of motion requiring the banks to furnish the Committee certain information. *(See end of this day's Proceedings.)*

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 113, subsection 1 read and amended by striking out all the words after "signed," line 10, to the end of the said subsection, and adopted as amended.

Section 113, subsections 2 and 3 read and adopted.

Section 113, subsection 4 read and amended by striking out all the words after "return," line 9, to the end of the said subsection and adopted as amended.

Section 113, subsection 5, paragraph (a) read and amended by striking out the words "twelve months," line 1, and by inserting in lieu thereof the words "two years" and adopted as amended.

Section 113, subsection 5, paragraphs (b), (c) and (d) read and adopted.

Section 113, subsection 5, paragraph (e) read and amended by adding thereto the following proviso: "provided however, that any loan falling within this subsection may be included amongst current loans if the directors declare that after due inquiry they have approved such loan as a current loan," and adopted as amended.

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Section 113, subsection 6 read and struck out and the following substituted therefor: "6. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then such bank shall, for the purposes of any return required under the last preceding section, transmit or deliver therewith, a separate return, showing the assets and liabilities of each such corporation, and the interest of the bank in such corporations shall be shown separately in any return respecting the affairs of the bank."

Section 113, subsections 7 and 8 read and adopted.

Section 113 was then declared adopted as amended.

Section 153 and Mr. Fielding's proposed amendments thereto read, and ordered to stand for further consideration.

The question of reporting in full the discussion had on section 91 relating to rate of interest charged by the banks being raised, on motion of Mr. Vien, it was ordered that the same be reported and printed in the proceedings of the Committee.

The Committee then adjourned until Monday next, at 11 o'clock a.m.

NOTICE OF MOTION

By Mr. Coote:—

That the chartered banks of Canada be requested to furnish this Committee with a statement of the amount of their past due loans in each province in Canada, also the amount of losses in each province in the last two years.

MONDAY, June 11, 1923.

The Committee met at 11 o'clock a.m.

Present: Mr. Maclean (Halifax) in the chair, and Messrs. Baxter, Benoit, Bird, Carmichael, Carruthers, Coote, Fafard, Fielding, Garland (Bow River), Good, Grimmer, Hanson, Hodgins, Humphrey, Irvine, Jelliff, Johnston, Kellner, Ladner, Mackinnon, McKay, Milne, Rankin, Shaw, Speakman, Spencer, Stevens, Woods, Woodsworth.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 96, subsection 4 again read, and amended by inserting the words "or summons" after "order," line 1, and after "order," line 3.

Section 96 was then adopted as so amended.

Section 159 read.

Mr. Fielding moved that section 159 of Bill No. 83 be struck out and the following be substituted therefor:

159. Chapter 9 of the statutes of 1913, Chapter 1 of the statutes of 1915, and Chapter 10 of the statutes of 1916 are repealed, save and except that sections 112 and 153 of said Chapter 9 shall remain in force to and including the thirtieth day of September, 1923.

The question being put on Mr. Fielding's amendment, it was agreed to, and section 159 was then adopted as so amended.

Section 160 read.

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Mr. Fielding moved that section 160 of Bill No. 83 be struck out and the following be substituted therefore:

160. This Act shall come into force on the first day of July, one thousand nine hundred and twenty-three, save and except that Sections 112, 113 and 153 thereof shall not come into force until the first day of October, one thousand nine hundred and twenty-three.

The question being put on Mr. Fielding's amendment, it was agreed to and section 160 was then adopted as so amended.

Section 147B again read and adopted as amended.

Section 146 again read, and amended by striking out the words "and not exceeding ten thousand dollars," lines 5 and 6 of paragraph (d), and section 146 was then adopted as so amended.

Section 130 again read, and adopted.

Section 151 again read, and adopted as amended.

Schedule A read.

Mr. Fielding moved that schedule "A" of Bill No. 83 be struck out and the following schedule substituted therefor:

Name of Bank	Capital authorized	Chief office of Bank
1. The Bank of Montreal.. . . .	\$ 31,175,000	Montreal
2. The Bank of Nova Scotia.. . . .	15,000,000	Halifax
3. The Bank of Toronto.. . . .	10,000,000	Toronto
4. The Molsons Bank.. . . .	5,000,000	Montreal
5. La Banque Nationale.. . . .	5,000,000	Quebec
6. La Banque Provinciale du Canada.. . . .	5,000,000	Montreal
7. The Union Bank of Canada.. . . .	15,000,000	Winnipeg
8. The Canadian Bank of Commerce.. . . .	25,000,000	Toronto
9. The Royal Bank of Canada.. . . .	25,000,000	Montreal
10. The Dominion Bank.. . . .	10,000,000	Toronto
11. The Bank of Hamilton.. . . .	7,000,000	Hamilton
12. The Standard Bank of Canada.. . . .	5,000,000	Toronto
13. La Banque d'Hochelaga.. . . .	10,000,000	Montreal
14. The Imperial Bank of Canada.. . . .	10,000,000	Toronto
15. The Home Bank of Canada.. . . .	5,000,000	Toronto
16. The Sterling Bank of Canada.. . . .	3,000,000	Toronto
17. The Weyburn Security Bank.. . . .	1,000,000	Weyburn

The question being put on Mr. Fielding's amendment, it was agreed to, and schedule A was adopted as so amended.

Schedules B, C, D, E, F, H, and I read and adopted.

The Committee then proceeded to the further consideration of Mr. Irvine's resolution concerning the basis, function and control of financial credit, etc.

At one o'clock, the Committee adjourned until to-morrow at 11 o'clock a.m.

APPENDIX No. 2

TUESDAY, JUNE 12, 1923.

The Committee met at 11 o'clock a.m.

PRESENT: Mr. Maclean (Halifax) in the Chair, and

Messrs.: Baxter, Benoit, Bird, Black (Yukon), Carmichael, Carruthers, Casgrain, Coote, Desaulniers, Descoteaux, Drayton (Sir Henry), Elliott (Dundas), Fafard, Fielding, Fortier, Garland (Bow River), Good, Grimmer, Guthrie, Hanson, Harris, Hatfield, Hodgins, Irvine, Jelliff, Kellner, Ladner, Laflamme, Macdonald (Pictou), Mackinnon, Maclean (Halifax), Maclean (York), Macphail (Miss), McCrea, McKay, McQuarrie, Marler, Maybee, Mewburn, Papineau, Power, Rankin, Rhéaume, Robb, Robichaud, Ryckman, Shaw, Sinclair (Queens, P.E.I.), Speakman, Spencer, Stevens, Stork, Tobin, Vien, Woods, Woodsworth.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

Section 153 read, and struck out and the following substituted therefor:

153. Every president, vice-president, director, auditor, general manager or other officer of the bank or trustee who knowingly prepares, signs, approves or concurs in any account, statement, return, report or document respecting the affairs of the bank containing any false or deceptive statement, *or any return which does not set forth the true financial position of the bank including all the information required by Section 113 of this Act*, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case by law prescribed therefor, by imprisonment for a term not exceeding five years.

2. Every president, vice-president, director, auditor, general manager or other officer of the bank or trustee who negligently prepares, signs, approves or concurs in any account, statement, return, report or document respecting the affairs of the bank containing any false or deceptive statement, *or any return which does not set forth the true financial position of the bank including all the information required by Section 113 of this Act*, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case by law prescribed therefor, by imprisonment for a term not exceeding three years.

Section 5 again read and adopted.

Section 89 again read.

The question being put on Mr. Casgrain's motion that subsection 2 of section 89 be amended by striking out all the words commencing with the word "who" in the ninth line thereof down to the end of the subsection and by substituting therefor the words "of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid,"—the foregoing amendment was negatived on division.

Section 89 again read.

Mr. Marler moved that section 89, subsection 3 (c) be amended by inserting after the word "owner" in the second line thereof the words "except in the case of threshed grain."

The question being put on Mr. Marler's amendment, it was negatived on division.

Section 89 ordered to stand for further consideration.

Schedule G items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15 under the heading "Liabilities," read and adopted.

Items 16 and 17 under the heading "Liabilities," read and struck out on division. Yeas, 23; nays, 13.

Items 18 and 19 under the heading "Liabilities," read and adopted.

At one o'clock, the Committee took recess until 4 o'clock p.m.

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AFTERNOON SITTING

4 o'clock p.m.

Schedule G—Assets—

Items 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 read and adopted.

Items 13 and 14 read and struck out and the following substituted therefor:—

13. Call and short (not exceeding thirty days) loans in Canada on stocks, debentures, bonds *and other securities of a sufficient marketable value to cover.*

14. Call and short (not exceeding thirty days) loans elsewhere than in Canada *on stocks; debentures, bonds and other securities of a sufficient marketable value to cover.*

Items 15 and 16 read and struck out and the following substituted therefor:—

15. Other current loans and discounts in Canada, *after making full provision for bad and doubtful debts.*

16. Other current loans and discounts elsewhere than in Canada, *after making full provision for bad and doubtful debts.*

Items 17, 18 and 19 read and adopted.

Item 20 read and struck out and the following substituted therefor:—

"20. Non current loans, estimated loss provided for."

Items 21, 22, 23, 24, 25 and 26 read and adopted.

A new item inserted as item 27, viz:—

"Shares of and loans to controlled companies."

Item 26 of the Bill renumbered as item 28.

Mr. Marler moved that Schedule G page 83 of the Bill be further amended by substituting for item:—

"Aggregate amount of loans to directors and firms of which they are partners and loans for which they are guarantors \$".
the following:—

"Aggregate amount of loans

(a) to directors and firms of which they are partners,

\$

(b) guaranteed by directors, \$".

The question being put on Mr. Marler's motion, it was negatived on division: yeas, 9; nays, 15.

Mr. Coote moved that Item No. 14 under "Assets" be struck out and the following substituted:

Call loans in Great Britain.

" " British Colonies.

" " United States of America.

" " Other foreign countries.

The question being put on Mr. Coote's motion, it was negatived on division: yeas, 7; nays, 16.

Mr. Coote moved that schedule G be amended by inserting on page 83 of the bill after the paragraph commencing with the word "Aggregate" in line nine, the following paragraphs:

"Aggregate amount of loans to corporations upon whose boards any director of the bank is a member, \$.

"Amount of deposits and loans in each province, \$.

The question being put on Mr. Coote's motion, it was negatived on division: yeas, 5; nays, 18.

Mr. Coote moved that Schedule G be amended by inserting after the paragraph commencing with the word "Aggregate" on page 83, line 9, the following paragraph:

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"Maximum and minimum rate of interest charged by the bank in respect to loans in each of the several provinces in which its head office or branches are situate, rate per cent."

The question being put on Mr. Coote's motion, it was negatived on division: yeas, 10; nays, 16.

Mr. Coote moved that schedule G be amended by inserting after the paragraph commencing with the word "Aggregate" on page 83, line 9, the following paragraph:

"Average rate of interest earned on the total volume of loans in each province in which is situate the head office of the bank or any branch or branches thereof, rate ."

The question being put on Mr. Coote's motion, it was negatived on division: yeas, 7; nays, 18.

Mr. Coote moved that schedule G be amended to show under 'Liabilities':

"1. Loans secured by chattel mortgage.

2. Loans secured by mortgage on real estate."

The question being put on Mr. Coote's motion, it was negatived on division: yeas, 4; nays, 15.

Schedule G was then adopted as amended.

Mr. Coote moved that Bill 83 be amended by adding thereto the following section:

"Banks and branches thereof situate in Canada elsewhere than in cities and towns having a population of over four thousand population according to the last census, shall remain open for and carry on and transact all the business of a bank as by this Act authorized, on each and every day except bank holidays and Saturdays until the hour of four o'clock in the afternoon."

The question being put on Mr. Coote's motion, it was negatived on division: yeas, 3; nays, 16.

Mr. Marler (for Mr. Hughes) moved that the following be added as Clause "F" to subsection (2) of Section 76:—

"F. Act as Agents for the placing of Insurance, whether fire, life or accident, or receive profit by way of commissions, through or by reason of the placing of any such insurance.

Debated, and ordered to stand for further consideration.

Mr. Shaw moved that Section 19 be amended by adding thereto the following:

(2) No person who occupies the office of a Minister of the Crown in the Government of the Dominion or of any Province of Canada, shall be eligible to hold or occupy, and shall not hold or occupy the office of director of any bank.

(3) Any violation of the provisions of Section 19 (2) shall be and be deemed to be an offence against this Act, and subject to the penalty by Section 157 of this Act provided.

The question being put on Mr. Shaw's proposed amendment, the names were called for and were taken down as follows:

Yeas—Messrs. Good, Spencer, Garland (Bow River), Speakman, Jelliff, and Shaw.—6.

Nays—Messrs. Fielding, McCrea, Baxter, Stevens, Hanson, Marler, Laflamme, McKay, Sinclair (Queens), Hodgins, Carmichael, Mewburn, Benoit, Hatfield, Fafard, Robichaud, Ryckman, Stork, Power, Tobin, and Rankin.—21.

The Chairman declared the amendment as passed in the negative.

At 6 o'clock, the Committee took recess until 8 o'clock p.m.

EVENING SITTING

8.30 o'clock p.m.

Section 54 again read.

Mr. Coote moved that the same be amended by adding thereto the following subsection 6: "The full and complete list of all bonds, debentures, stocks, and other like investments owned by the bank with their book value."

The question being put on Mr. Coote's proposed amendment, it was negatived on division: yeas, 6; nays, 18.

The question being again put on section 54.

Mr. Spencer moved that the same be amended by adding the following to subsection 4 thereof:

"The profit and loss statement shall include and show on the one part the amount of

(a) Balance of profit and loss account carried forward from previous year;
(b) Rebate of interest on unmatured bills as at close of previous year;
(c) Gross profits, including balances of all interest, commission, exchange and other revenue-producing accounts;

(d) Premium on new stock sold;
(e) Bad debts recovered, previously written off, and the statement shall include and show on the other part:

(a) Expenses of management and operation;
(b) Interest paid on deposits;
(c) Interest reserved on unmatured bills;
(d) Amount written off bank premises;
(e) Amount transferred to appropriation account for losses;
(f) Amount transferred to officers' pension fund;
(g) Sundry appropriations or disbursements not included under foregoing heads, and to be shown in detail;
(h) Dividends declared (specifying number and date);
(i) Amount transferred to rest account;
(j) Balance at credit of profit and loss account."

The question being put on Mr. Spencer's proposed amendment, it was negatived on division: yeas, 11; nays, 18.

Section 54 was then adopted as previously amended.

Section 56 A again read.

Mr. Spencer moved that the following words be added to the same: "The report called for under this section be published."

The question being put on Mr. Spencer's proposed amendment, it was negatived on division.

Section 56A was then adopted.

Section 61 again read.

Mr. Irvine moved that the word "one" be substituted for the word "three" in the second line of subsection 4, and that the words "a fourth" of the third line of the same subsection be struck out and the word "three" be substituted therefor.

The question being put on Mr. Irvine's proposed amendment, it was negatived on division: yeas, 8; nays, 20.

Section 61 was then adopted.

Section 76 again read.

Mr. Coote moved that the same be amended by adding the following paragraph:

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(f) Lend money or make advances in excess of ten per cent of its paid-up capital to any company or corporation in which the president, any director, manager or any principal officer of the bank is or are directly or indirectly interested without the unanimous consent of all the directors present at a special board meeting called for the purpose of passing upon such loan or advances.

(g) Lend money or make advances in excess of ten per cent of its paid-up capital to any foreign person, company or corporation or upon the securities of such foreign person, company or corporation or in excess of twenty-five per cent of the bank's paid-up capital to any person residing in Canada or any company or corporation having its head office in Canada or upon the securities of such person, company or corporation.

Debated, and ordered to stand for further consideration.

Section 89 again read.

Mr. Casgrain moved that subsection 2 be amended by striking out all the words commencing with the word "who" in the ninth line thereof down to the end of the subsection and by substituting therefor the words "of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid."

The question being put on the foregoing amendment, it was negatived.

Section 89 was then adopted.

On motion of Mr Marler, the following was inserted as a new subsection 3 to section 76:

"3. No agent or manager of any bank shall act as agent for any Insurance Company or for any person in the placing of Insurance, nor shall any bank exercise pressure upon any borrower to place insurance for the security of such bank in any particular insurance agency but nothing herein contained shall prevent such bank from requiring such insurance to be placed with an insurance company which it may approve."

Section 76 ordered to stand for further consideration.

Section 125 again read.

Mr. Hughes moved that the same be amended by inserting the following as a new subsection 3:

"(3) Transfers or sale of shares of the bank by directors or other executive officers of the bank, made within a period of one year prior to any suspension by the bank of payment of any of its liabilities as they accrue in specie or Dominion notes shall be null and void at the option of the transferee who may elect to return such shares or any of them to the transferor and be thereupon entitled to recover the amount of the purchase price thereof, and, in the event of such option being exercised the transferor shall be and become liable as a shareholder under subsection one of this section and the transferee be not liable in any respect whatsoever as to the said shares under the said subsection one hereof."

The question being put on the foregoing proposed amendment, it was negatived on division.

Section 125 was then adopted.

Section 136 again read.

Mr. Irvine moved that the same be amended by adding thereto as subsection 5 the following:—

"5. Provided however that notwithstanding anything to the contrary in this Act provided it shall be lawful for any number of people to organize a mutual bank by each member depositing with the proper authorities securities

to cover all cheques that they may desire to issue, every kind of security being acceptable that is now acceptable to banks and to the government; each member being permitted to issue cheques against securities up to a certain percentage thereof; the securities to pay no interest, being held only as securities; these banks being limited to the one function of a clearing house for cheques and to seeing that members do not overdraw their accounts; the cheques to be treated as other cheques, and receivable for all public dues at face value."

Mr. Baxter moved that further consideration of the foregoing amendment be postponed until a separate bill be drafted and submitted to the Committee.

The question being put on Mr. Baxter's motion, it was negatived on division: Yeas, 9; nays, 18.

The question being then put on Mr. Irvine's proposed amendment, it was negatived on division: Yeas, 6; nays, 20.

Section 136 was then adopted.

The Committee then proceeded to the consideration of Mr. Good's proposed amendments, as follows:—

An Act to amend the Bank Act.

His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Section 2 of the Bank Act is amended by inserting after subsection (a) the following subsection:

'(aa) Community Bank means any Bank without branches to which this Act applies and which is established in and named after any local community.'

2. Section 8 of the said Act is amended by adding thereto the following proviso:—

'Provided that the name of a Community Bank shall be The Community Bank of (name of the community).'

3. Section 9 of the said Act is hereby amended by inserting after the word 'Act' in the second line thereof the following words—'or in the case of a Community Bank in the form set forth in Schedule (BB) to this Act.'

4. Section 10 of the said Act is hereby amended by inserting the words 'except in the case of a Community Bank' after the word 'incorporated' in the first line thereof, and by adding to said section 10 the following proviso:—

'Provided however that the capital stock of any Community Bank shall not be less than one hundred thousand dollars and shall be divided into shares of twenty dollars each.

5. Section 13 of the said Act is hereby amended by inserting after the word 'Minister' in the fourth line thereof the following words 'or in the case of a Community Bank so soon as a sum not less than one hundred thousand dollars of the capital stock of the Bank has been *bona fide* subscribed and a sum not less than fifty thousand dollars thereof has been paid to the Minister.'

6. Section 17 of the said Act is amended by inserting after the word 'dollars' in the fifth line thereof the words 'or in the case of a Community Bank, the sum of one thousand dollars.'

7. Section 61 of the said Act is amended by inserting immediately after subsection (b) thereof the following subsection:—

'(c) No Community Bank shall issue or reissue such notes until the Government of the Province in which such Community Bank is established guarantees the payment in the event of the suspension by such bank of payment in specie or Dominion notes of any of its liabilities as they accrue, of the notes then issued or reissued by such bank intended for circulation and then in circulation and interest thereon.'

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8. Section 76 of the said Act is amended by adding at the end of subsection (a) the following proviso:—

‘Provided however that a Community Bank shall have only one chief office and shall not open any branch or other agency or office, other than its chief office, except agencies for the redemption and payment of its notes, as provided in Section 70 of the said Act.’

9. Section 94 of the said Act is amended by adding thereto the following proviso:—

‘Provided however that no Community Bank shall receive or retain any such sum in discounting any note, bill or other negotiable security or paper *bona fide* payable at any other Community Bank.’

10. Schedule (BB) is hereby inserted after Schedule (B) to the said Act:—

SCHEDULE BB.

An Act to incorporate The Community Bank of.....

Whereas the persons hereinafter named have by their petition prayed that an Act be passed for the purpose of establishing a Community Bank in the community known as.....in the Province of.....and it is expedient to grant the prayer of the said petition:—

Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. The persons hereinafter named, together with such others as may become shareholders in the corporation by this Act created, are hereby constituted a corporation by the name of The Community Bank of..... hereinafter called the Bank.

2. The capital stock of the Bank shall be.....dollars.

3. The chief office of the Bank shall be at.....in the said Community in the Province of.....

4.shall be the provisional directors of the Bank.

5. This Act shall, subject to the provisions of Section 16 of the Bank Act, remain in force until the first day of July in the year one thousand nine hundred and.....

And a debate arising thereon, the Committee adjourned until to-morrow at four o'clock p.m.

WEDNESDAY, June 13, 1923.

The Committee met at 4 o'clock p.m.

Present: Mr. Maclean (Halifax) in the Chair, and Messrs. Baxter, Benoit, Carmichael, Chaplin, Clark, Coote, Desaulniers, Drayton (Sir Henry), Des-coteaux, Fafard, Fielding, Garland (Bow River), Good, Guthrie, Hanson, Hatfield, Hodgins, Irvine, Jelliff, Kellner, Ladner, Laflamme, Maclean (York), McCrea, McMurray, McQuarrie, Maybee, Mewburn, Mitchell, Rankin, Robi-chaud, Ryckman, Shaw, Speakman, Spencer, Stevens, Stork, Tobin, Vien, Power, Woods, Woodsworth.

The Committee resumed consideration of Bill No. 83, respecting Banks and Banking.

The Chairman having brought to the attention of the Committee the question of reporting the said Bill to the House in such a manner as would show the amendments made by the Committee, it was

13-14 GEORGE V, A. 1923

Resolved, that the amendments made and adopted by this Committee in the revision of The Bank Act, being chapter 9 of the statutes of 1913, and amendments thereto, be reported to the House in italic type; and, for the better convenience of the Senate they suggest that the same method be followed by the House when forwarding the said Bill to the Senate after its third reading, and that the roman type be reverted to only after the passing of the Bill by both Houses.

Section 30 again read.

Mr. Woodsworth moved that the same be amended by adding thereto as subsection 4 the following:

(4) Such officers, clerks or servants shall have and be deemed to have the right of association for all lawful purposes.

The question being put on the foregoing amendment, it was negatived on a show of hands. Yeas, 9; nays, 16.

The names being called for they were taken down as follows:

Yeas—Messieurs Fielding, Woodsworth, Spencer, Coote, Good, Irvine, Speakman, Kellner, Hodgins, Shaw, Maclean (York), Jelliff, and McMurray—13.

Nays—Messrs. Baxter, Benoit, Chaplin, Clark, Desaulniers, Descoteaux, Fafard, Guthrie, Hatfield, Mackinnon, McCrea, McQuarrie, Mewburn, Mitchell, Robichaud, Ryckman, Stevens, Stork, Tobin, and Woods—20.

The Chairman again declared the amendment as passed in the negative.

Section 76 further considered.

Mr. Coote moved that subsection 2 thereof be amended by adding the following paragraph:

“Lend money or make advances in excess of 10 per cent of its paid-up capital to any Company or Corporation in which the President, General Manager or Director of a Bank is a shareholder without the unanimous approval of all directors present at either a regular or special meeting of the Board of which due notice setting forth the proposal for such advance or loan, has been given to all directors.”

After some discussion, the foregoing amendment being withdrawn—

Mr. Fielding moved that subsection 2 of section 76 be amended by adding the following paragraph:

“(f) Lend money or make advances in excess of ten per cent of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a regular meeting, or meeting specially called for the purpose, of the board.”

The question being put on the foregoing amendment, it was agreed to on division: yeas, 28; nays, 5.

Section 76 was then adopted as amended.

The Committee then proceeded to the further consideration of Mr. Good's proposed amendments to Bill No. 83 relating to Community Banks, as set out in the minutes of proceedings of June 12.

After some discussion, the said amendments were withdrawn.

Ordered, that the Bill be reported as amended.

On motion of Mr. Baxter, seconded by Mr. Tobin, it was

APPENDIX No. 2

Ordered that the Bill be reprinted as amended by the Committee, and that the minutes of proceedings and evidence be reported to the House with a recommendation that the same be printed in blue-book form and as an appendix to the Journals of the House.

The Committee then adjourned until to-morrow at 11.30 o'clock a.m., for the consideration of Mr. Irvine's resolution on basis of credit, etc.

THURSDAY, June 14, 1923.

The Committee met at 11.30 o'clock a.m. Present: Mr. Maclean (Halifax), in the Chair, and Messrs. Benoit, Caldwell, Carmichael, Coote, Elliott (Dundas), Fafard, Fielding, Good, Hanson, Irvine, Johnston, Kellner, King (Huron), MacKinnon, Marler, Maybee, Mewburn, Mitchell, Morin, Rankin, Senn, Shaw, Spencer, Stevens, Tobin, Woodsworth.

The Committee proceeded to the further consideration of Mr. Irvine's resolution *re* basis, function and control of financial credit, etc.

After some discussion, the Committee adjourned until Wednesday next, June 20, at 11 o'clock a.m.

WEDNESDAY, June 20, 1923.

11 o'clock a.m.

The Members convened were:—

Messrs. Maclean (Halifax) in the Chair, Clark, Coote, Good, Irvine, Maclean (York), Mitchell, Ryckman, Speakman, Spencer, Stevens, and Woods—12.

There being no quorum present, the Chairman adjourned the meeting until 2.30 o'clock p.m.

AFTERNOON SITTING

WEDNESDAY, June 20, 1923.

2.30 o'clock p.m.

The Members convened were: Messrs. Maclean (Halifax) in the Chair, Benoit, Bird, Chevrier, Clark, Coote, Desaulniers, Fafard, Good, Hughes, Irvine, Jelliff, Garland (Bow River), McMaster, Mitchell, Papineau, Robb, Shaw, Spencer, Stevens, Tobin, and Woodsworth—22.

The Committee resumed consideration of Mr. Irvine's resolution *re* basis of credit, etc.

On motion of Mr. Irvine, the following draft report was adopted as the report of the Committee and ordered to be presented to the House, viz:—

"The Select Standing Committee on Banking and Commerce beg leave to present the following as their

"EIGHTH REPORT.

"Your Committee, in obedience to the Order of the House of March 9, 1923, have had under consideration the question of investigating the basis, the function and the control of financial credit, and the relation of credit to the industrial problems; and in connection therewith have held several meetings and examined the following witnesses, viz: Messrs. Bevington, Douglas, Fisher, and others, but have not been able to complete their inquiry into the matters covered by the Order of Reference.

"Your Committee respectfully recommend that a further reference be made at the next session of Parliament on the matters referred to in the said Order of Reference.

"Your Committee beg to submit a printed copy of their proceedings on such reference, and all documents submitted and not contained in the proceedings.

"All which is respectfully submitted."

The Committee then adjourned to the call of the Chair.

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“ 12—Memo. prepared by Finance Dept. showing gold and Dominion notes in central gold reserve, market value of real property, advances of Dominion notes, and excess circulation of banks, Dec. 31, 1922	100
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EXHIBITS

EXHIBIT No. 1

STATEMENT SHOWING, IN THE CASE OF EACH CHARTERED BANK, CAPITAL AUTHORIZED, CAPITAL SUBSCRIBED, CAPITAL PAID UP AND AMOUNT OF REST OR RESERVE FUND AS OF JANUARY 31, 1923

(Supplied by the Department of Finance)

Name of Bank	Capital authorized	Capital subscribed	Capital paid up	Amount of rest or reserve fund
	\$	\$	\$	\$
Bank of Montreal.....	31,175,000	27,250,000	27,250,000	25,250,000
Bank of Nova Scotia.....	15,000,000	10,000,000	10,000,000	19,500,000
Bank of Toronto.....	10,000,000	5,000,000	5,000,000	6,000,000
Molsons Bank.....	5,000,000	4,000,000	4,000,000	5,000,000
Banque Nationale.....	5,000,000	3,000,000	2,937,930	400,000
Banque Provinciale du Canada.....	5,000,000	3,000,000	3,000,000	1,500,000
Union Bank of Canada.....	15,000,000	8,000,000	8,000,000	6,000,000
Canadian Bank of Commerce.....	25,000,000	15,000,000	15,000,000	15,000,000
Royal Bank of Canada.....	25,000,000	20,400,000	20,400,000	20,400,000
Dominion Bank.....	10,000,000	6,000,000	6,000,000	7,000,000
Bank of Hamilton.....	7,000,000	5,000,000	5,000,000	4,850,000
Standard Bank of Canada.....	5,000,000	4,000,000	4,000,000	5,000,000
Banque d'Hochelaga.....	10,000,000	4,000,000	4,000,000	4,000,000
Imperial Bank of Canada.....	10,000,000	7,000,000	7,000,000	7,500,000
Home Bank of Canada.....	5,000,000	2,000,000	1,960,296	550,000
Sterling Bank of Canada.....	3,000,000	1,266,600	1,232,900	500,000
Weyburn Security Bank.....	1,000,000	655,700	524,560	225,000
Total.....	187,175,000	125,572,300	125,305,686	130,675,000

Department of Finance, March 16, 1923.

EXHIBIT No. 2

REST OR RESERVE FUND OF THE BANKS—HOW DERIVED

(Supplied by the Department of Finance)

Name of Bank	From share-holders—premium on shares of capital stock	From profits	Total
	\$ cts.	\$ cts.	\$ cts.
Bank of Montreal.....	13,441,450 00	13,808,550 00	27,250,000 00
Bank of Nova Scotia.....	14,534,676 86	4,965,323 14	19,500,000 00
Bank of Toronto.....	3,105,000 00	2,895,000 00	6,000,000 00
Molsons Bank.....	1,925,000 00	3,075,000 00	5,000,000 00
La Banque Nationale.....	400,000 00	400,000 00	400,000 00
Banque Provinciale du Canada.....	300,000 00	1,200,000 00	1,500,000 00
Union Bank of Canada.....	2,925,784 00	3,074,216 00	6,000,000 00
Canadian Bank of Commerce.....	5,922,257 27	9,077,742 73	15,000,000 00
Royal Bank of Canada.....	15,773,769 50	4,626,230 50	20,400,000 00
Dominion Bank.....	4,900,000 00	2,100,000 00	7,000,000 00
Bank of Hamilton.....	2,558,771 40	2,291,228 60	4,850,000 00
Standard Bank of Canada.....	2,936,335 00	2,063,665 00	5,000,000 00
La Banque d'Hochelaga.....	1,232,980 00	2,767,020 00	4,000,000 00
Imperial Bank of Canada.....	4,969,395 85	2,530,604 15	7,500,000 00
Sterling Bank of Canada.....	262,236 73	237,763 27	500,000 00
Home Bank of Canada.....	410,260 38	139,739 62	550,000 00
Weyburn Security Bank.....	10,710 18	214,289 82	225,000 00
Total.....	75,208,627 17	55,466,372 83	130,675,000 00

EXHIBIT No. 3.

RETURN OF THE CHARTERED BANKS OF THE DOMINION OF CANADA

JULY 31, 1923

Made to the Minister of Finance in conformity with Section 112 of the Bank Act, Chapter 9, of the Statutes of 1913
as continued in force by Section 159 of the Bank Act, Chapter 32, of the Statutes of 1923.

NAME OF BANK — NOM DE LA BANQUE	LIABILITIES—PASSIF.																	
	CAPITAL STOCK				1	2	3	4	5	6	7	8	9	10	11	12	13	
	Capital authorized — Capital autorisé —	Capital subscribed — Capital souscrit	Capital paid up — Capital versé	Amount of shares and reserves held — Montant de la somme de l'émission et des réserves														
	\$	\$	\$	\$	%	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Bank of Montreal	21,175,000	27,550,000	27,550,000	27,550,000	10	30,715,745	19,235,416	8,965,735	100,306,749	215,764,043	70,041,658	2,038,159	141,349	322,771	965,795	3,870,007	1,616,079	
Bank of Nova Scotia	11,000,000	13,000,000	15,000,000	10,568,000	16	14,455,593	472,813	31,792,167	358,705,255	50,559,579	1,808,193	65,161	1,115,603	336,167	15,770	158,393,333	621,131	
Bank of Toronto	10,000,000	5,000,000	5,000,000	5,000,000	12	6,706,663	624,274	1,351,319	27,826,688	66,073,243	600,835	106,660	1,856,558	252,375	5,438	82,907,180	439,396	
Bank of Nova Scotia	5,000,000	4,000,000	4,000,000	5,000,000	12	6,194,871	387,559	812,839	13,634,547	41,682,092	400,835	5,183	358,386	300,393	302,855	300,000	681,043	
Bank of Montreal	5,000,000	3,000,000	2,953,710	4,000,000	6	4,338,996	628,435	1,508,181	6,016,841	25,263,584	7,179,551	809	2,313	770,410	156,000	320,518	594,807	
Bank of Nova Scotia	5,000,000	2,000,000	1,000,000	1,000,000	9	2,770,984	45,235	106,219	4,337,693	31,716,432	6,048	1,289	385,891	1,564,791	179,171	318,877	2,974,784	
Union Bank of Canada	15,000,000	8,000,000	8,000,000	11,000,000	19	7,513,890	2,734,593	2,827,334	9,713,668	50,000,292	3,863,456	495,679	3,261,634	1,509,192	1,179,077	39,705	1,050,653	
Canadian Bank of Commerce	24,000,000	15,000,000	15,000,000	35,000,000	13	21,683,710	1,697,570	4,437,172	81,413,183	19,374,794	49,861,992	193,005	448,654	7,348,673	1,784,491	3,569,009	1,637,469	
Royal Bank of Canada	25,000,000	31,400,000	31,400,000	20,400,000	12	35,524,122	742,861	1,606,016	16,939,306	186,666,103	142,864,314	845,763	218,660	55,474,081	4,043,756	4,422,397	16,469,106	
Dominion Bank	10,000,000	5,000,000	5,000,000	5,000,000	13	5,007,840	276,382	831,755	57,128,550	46,048,075	1,679,166	676,450	438,392	393,683	491,023	665,525	920,433	
Bank of Hamilton	7,000,000	1,000,000	1,000,000	4,500,000	14	4,945,169	85,271	682,623	13,373,144	20,464,741	501,143	6,798	897,340	580,789	50,616,327	820,273	524,972	
Standard Bank of Canada	5,000,000	4,000,000	4,000,000	2,500,000	14	4,550,795	3,603,460	478,760	18,094,123	43,122,679	1,776,093	495,526	1,370,943	439	80,761	65,797,584	46,993	
Bank of Montreal	22,000,000	4,000,000	4,000,000	4,000,000	13	5,147,584	689,185	221,787	9,099,093	46,048,075	385,506	191,515	658,506	358,000	1,103	68,675,343	398,593	
Imperial Bank of Canada	10,000,000	7,000,000	7,000,000	7,000,000	13	8,806,593	478,713	5,555,847	56,793,873	61,688,747	907,614	993	634,059	119,000	168,030,069	91,005	1,895,505	
Trading Bank of Canada	2,000,000	1,548,630	1,548,630	800,000	8	1,699,471	3,072,061	556,683	3,345,516	31,373,718	393,836	16,973	65,610	1,369	21,692,640	65,081	794,441	
Western Security Bank	1,000,000	657,700	657,700	253,000	7	688,388	54,643	4,388	5,583,395	7,448,772	388,836	15,579	25,038	2,598,715	22,963	17,640	60,768	
Total	182,175,000	121,875,300	122,494,770	125,625,000		169,660,555	35,618,557	59,512,037	506,645,000	1,500,091,356	595,842,547	11,655,707	4,481,028	23,700,700	7,487,500	27,632,947	2,370,684	
																	6,814,650	
																	24,766,697	
																	160,434,665	
																	378,337	

* Bonds of the Merchants Realty Corporation to the extent of \$2,000,000 secured on premises leased to the Bank are in the hands of the public. These bonds do not appear in the above Statement, as the Bank is not directly liable therefor.—Footnote to Bank of Montreal return.
Bonds of the Canadian Realty Corporation, Ltd., to the extent of \$2,000,000, secured on premises leased to the Bank, are in the hands of the public. These bonds do not appear in the above Statement, as the Bank is not directly liable therefor.—Footnote to Union Bank return.

RETURN OF THE CHARTERED BANKS OF THE DOMINION OF CANADA, JULY 31, 1923.

[illegible]

* This amount includes \$150,000 bonds of the Merchants Realty Corporation held by the Bank that, were not loaned to the public.—Foot-note to Bank of Montreal return.

DEPARTMENT OF ED

OTTAWA, August 23rd, 1923.

OTTAWA—Printed by Frederick Albert Acland, Printer to the King's Most Excellent Majesty.

J. C. SAUNDERS,
Deputy Minister of Finance.

. APPENDIX No. 2

EXHIBIT No. 4

MEMORANDUM OF BANK MERGERS, FROM 1867 TO DATE

(Supplied by Department of Finance)

Name	Date
Commercial Bank and Merchants Bank, under name of Merchants Bank of Canada	February 22, 1868.
Gore Bank, and Canadian Bank of Commerce.....	May 19, 1870.
Niagara District Bank, and Imperial Bank of Canada.....	June 21, 1875.
City Bank, and Royal Canadian Bank, under name of Consolidated Bank of Canada.....	May, 1876.
Union Bank of Prince Edward Island, and Bank of Nova Scotia.....	Oct. 1, 1883.
Bank of British Columbia, and Canadian Bank of Commerce.....	January 2, 1901.
Summerside Bank, and Bank of New Brunswick.....	Sept. 1, 1901.
Commercial Bank of Windsor, and Union Bank of Halifax.....	October, 1902.
Exchange Bank of Yarmouth, and Bank of Montreal.....	August 20, 1903.
Halifax Banking Company, and Canadian Bank of Commerce.....	May 30, 1903.
People's Bank of Halifax, and Bank of Montreal.....	July 1, 1905.
Merchants Bank of Prince Edward Island, and Canadian Bank of Commerce...	June 1, 1906.
People's Bank of New Brunswick, and Bank of Montreal.....	April 30, 1907.
Western Bank of Canada, and Standard Bank of Canada.....	February 13, 1909.
Northern Bank, and Crown Bank of Canada, under name of Northern Crown Bank.....	July 3, 1908.
Union Bank of Halifax, and Royal Bank of Canada.....	November 1, 1910.
United Empire Bank of Canada, and Union Bank of Canada.....	March 31, 1911.
Eastern Townships Bank, and Canadian Bank of Commerce.....	March 1, 1912.
Traders Bank of Canada, and Royal Bank of Canada.....	September 1, 1912.
Bank of New Brunswick, and Bank of Nova Scotia.....	February 16, 1913.
Bank Internationale du Canada, and Home Bank of Canada.....	April 15, 1913.
Metropolitan Bank, and Bank of Nova Scotia.....	November 14, 1914.
Quebec Bank, and Royal Bank of Canada.....	January 2, 1917.
Northern Crown Bank, and Royal Bank of Canada.....	July 2, 1918.
Bank of British North America, and Bank of Montreal.....	October 12, 1918.
Bank of Ottawa, and Bank of Nova Scotia.....	April 30, 1919.
Merchants Bank of Canada, and Bank of Montreal.....	March 20, 1922.

EXHIBIT No. 5

(Submitted by Mr. Bevington)

STATISTICS OF GOLD HOLDINGS, NOTE ISSUE, BANK DEPOSITS AND "PUBLIC" (i.e., DOMINION PROVINCIAL AND MUNICIPAL) LIABILITIES IN CANADA

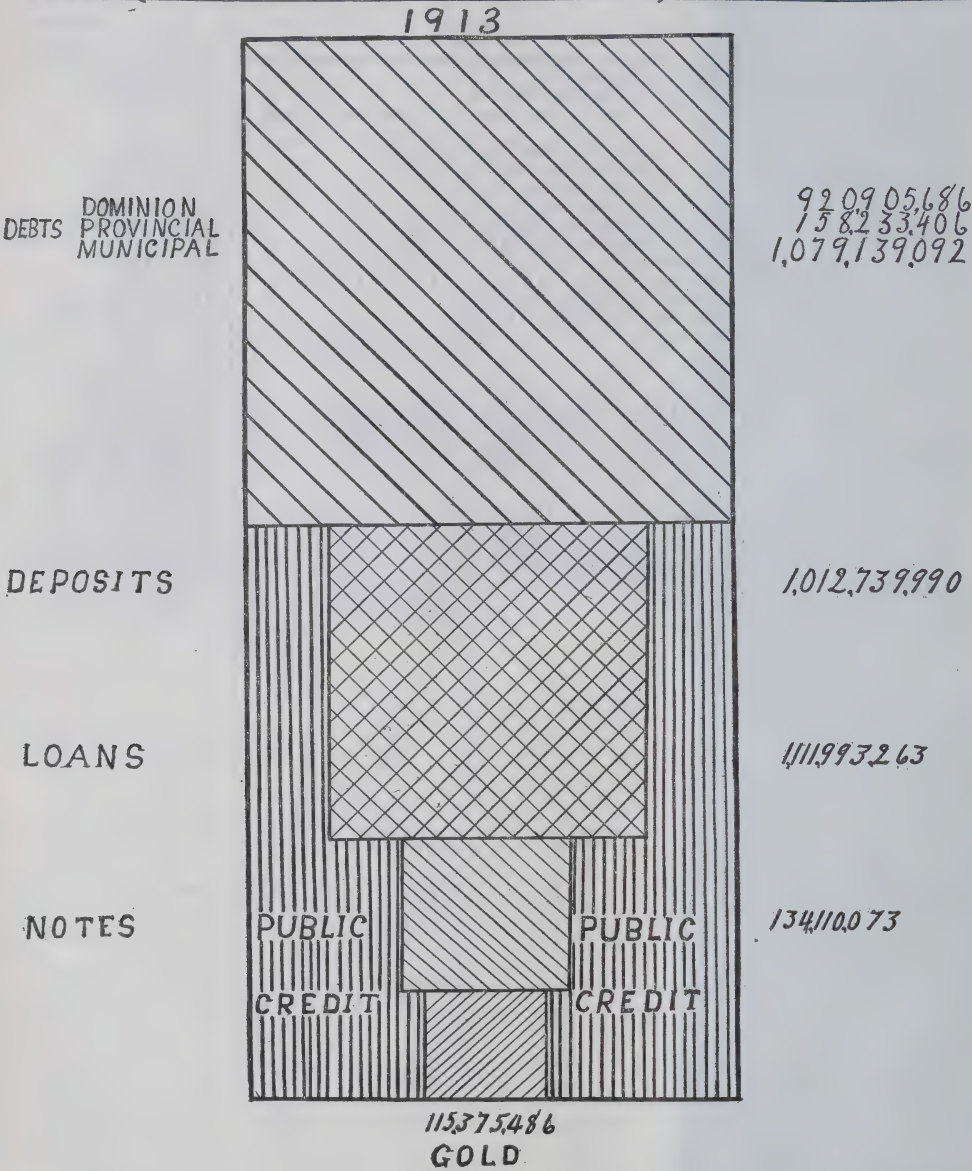


EXHIBIT No. 6

(Submitted by Mr. Bevington)

STATISTICS OF GOLD HOLDINGS, NOTE ISSUE, BANK DEPOSITS AND
 "PUBLIC" (i.e., DOMINION PROVINCIAL AND MUNICIPAL) LIABILITIES IN CANADA

1923.

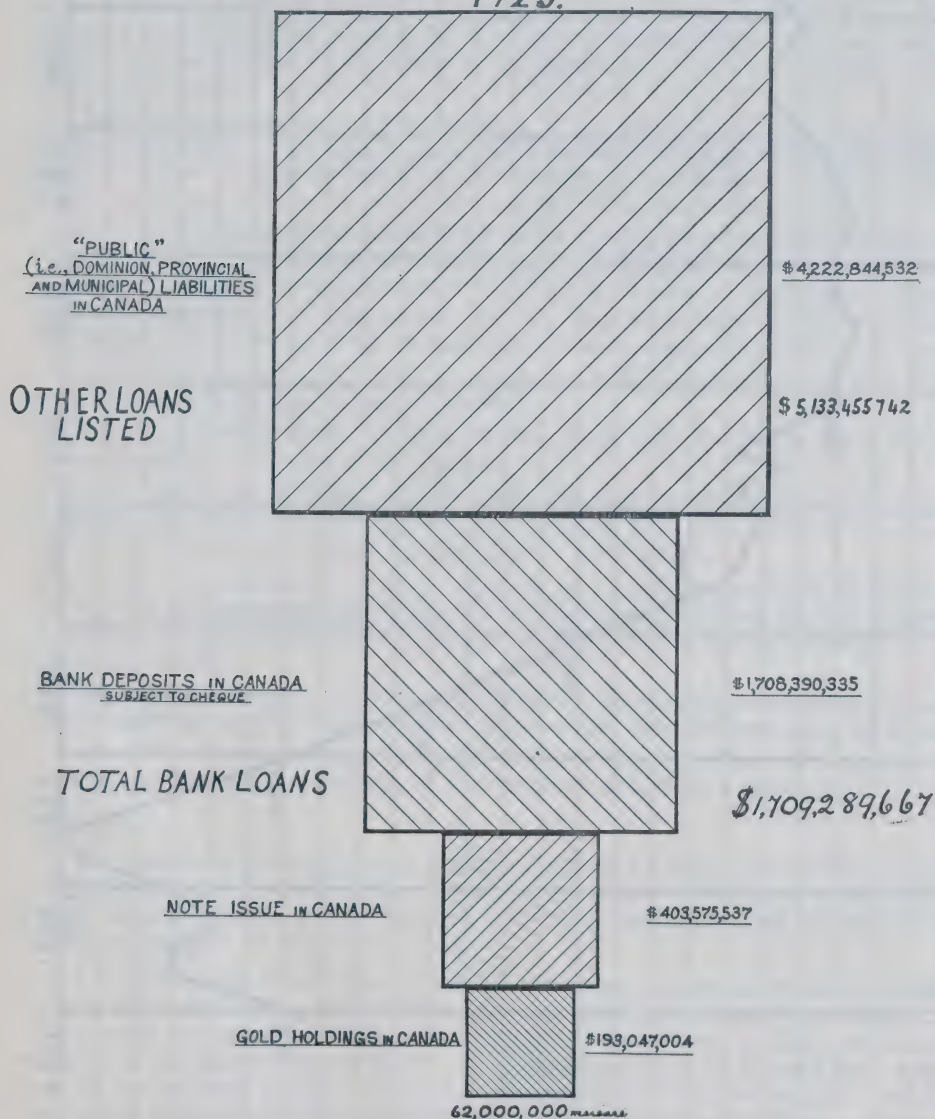


EXHIBIT No. 7.

(Submitted by Mr. Neil East)

Chart showing expansion and contraction of credit from 1913 to 1922 by banks.

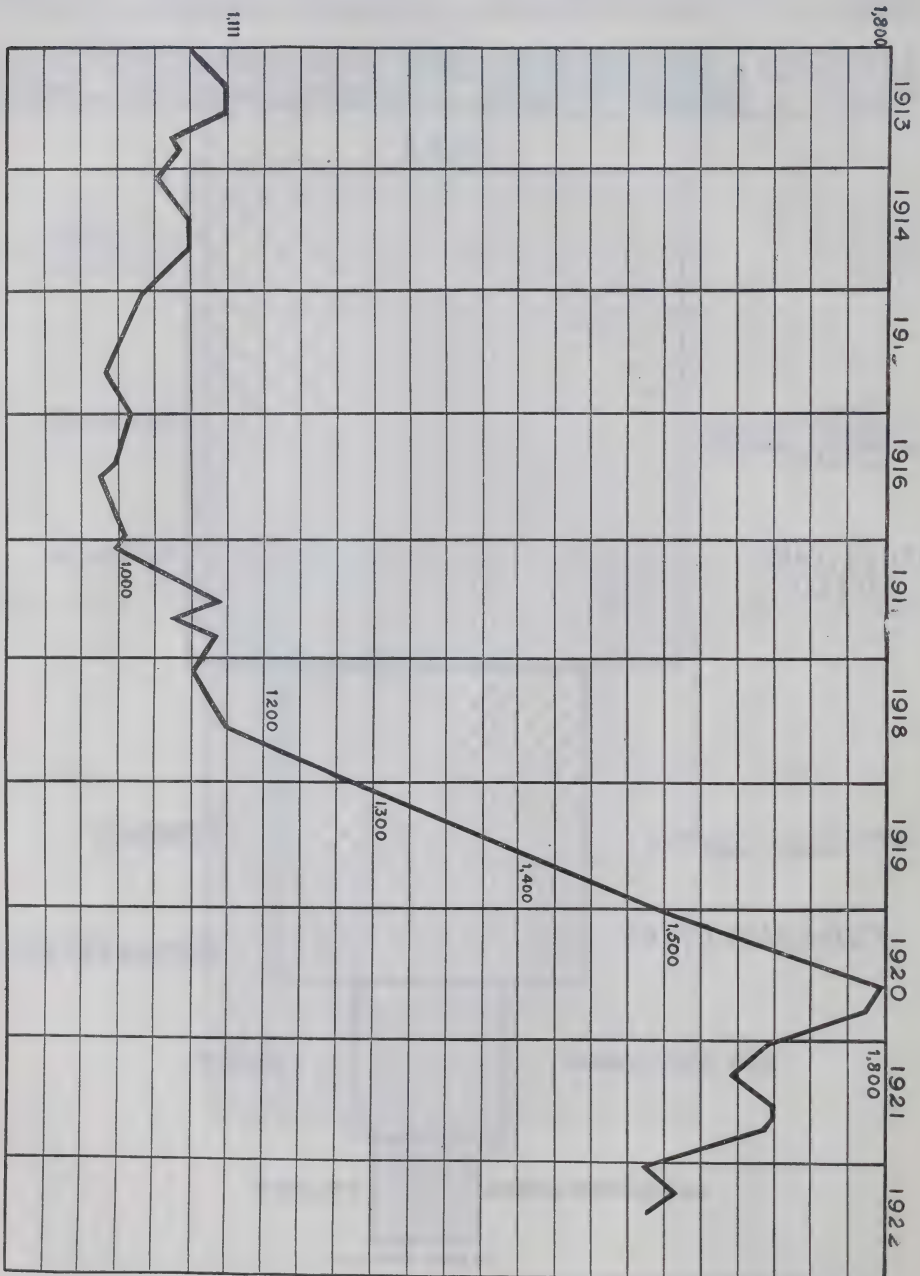


EXHIBIT No. 8

PROPOSAL FOR A FEDERAL RESERVE BANK OF CANADA

*(Submitted by Mr. Ladner)**Explanation.*

In every important commercial and industrial country of the world a Federal Reserve Bank or some banking institution embodying the same principles and advantages exists. In Great Britain the Bank of England performs all the functions of a federal reserve bank of rediscount, carrying on in addition its own banking operations. In France the Bank of France does the same thing; likewise in Spain and Italy we find in their banking systems most of the features of the Federal Reserve Bank. In the United States, whose original banking system was individual local banks as distinguishable from the branch banking system, the federal reserve bank was instituted in November, 1914.

In all these systems the Government in the interests of the public at large necessarily plays an important part and receives certain great financial advantages in times of war or other crisis. Generally speaking a Federal Reserve Bank, as we see it in other countries, has the following main functions:—

(a) It is a bank of rediscount for other banks, or a bankers' bank; available for credit to banks, either when there is a financial depression and heavy demands on a bank or on the other hand for elasticity of credit when there is business expansion and prosperity. In this way very large banking capital is less important in the banking system and there is a greater stability of credits.

(b) Open market operations to check too sudden expansions or too sudden contractions, by the use of bank discount.

(c) As a credit agent in international trade and commerce for a broader discount market for commercial paper.

(d) To act as a bank of note issue for the Government instead of, for example, the Dominion Government handling its own note issue.

(e) To act as the Fiscal Agents of the Government.

(f) To be constituted in such a manner as to enable the people of the country by the Government and to the Government's appointees on the Board of Directors, to have due regard to the best interests of the people's prosperity and financial welfare.

(g) To act, through its Board of Directors, as a disciplinary body on banks which might be disposed to engage in questionable undertakings on a large scale.

(h) To exercise, through its Board of Directors, inspection in a general way for unusual financial operations of the member and other banks.

Proposal.

It is proposed that a Federal Reserve Bank of Canada be established on the following general principles, the details to be worked out by a committee of expert bankers, business men, farmers and others understanding finance, as well as representatives of the Government:—

1. *Capital and Principles.*—That the seventeen chartered banks of Canada, having about four thousand four hundred and seventy-two branch banks in Canada, should become shareholders in amounts proportionate to their capital and reserve, in a Federal Reserve Bank. A corporate body to be formed by a special Act of Parliament, having a capital of fifteen million dollars in gold and that provisions be made for the entry for any further chartered banks on the same basis.

2. *Board of Directors.*—The Board should consist of ten or such other number as may be determined and composed of the following:—Four members to be appointed by member banks from among the heads of chartered banks. Three men of high standing and integrity, experienced in business, manufacturing and farming to be appointed by the Government. Two members (one of whom should be an ex-banker of the highest standing and integrity) to be appointed by the member banks, subject to the approval of the Government. The remaining member to be the Minister of Finance, or his representative, duly appointed.

Operation.

The Federal Reserve Bank should exercise the following functions:—

(a) To act as a bank of re-discount dealing only with banks.

(b) To have the right of open market operations in much the same way as is now done by the Federal Reserve Bank of the United States and for the same purposes.

(c) To act as a credit agent for banks in international banking in order to facilitate trade and commerce between Canada and other parts of the world, on much the same principle as the Bank of England.

(d) To function as the Government now does with respect to all Dominion Note Issues, reserving, however, power of the Finance Department to check over and make certain of the proper securities being held for such issue. In addition to the Gold security to the Federal Reserve Notes, these notes also to be backed as they are now by the Dominion Government thus giving complete stability as far as note issue is concerned.

(e) To act as the bankers or fiscal agents of the Government. In this way the Government has the power and united strength of all the banking institutions of the Country in times of crisis and the banks have a far better opportunity as members of the Federal Reserve Bank in sharing in business of the Government. It does not seem fair that one bank should monopolize the business of the Government, and to a large extent, as a private institution dominate the financial structure of Canada.

(f) To have no greater net profits than sufficient to pay operating expenses and 6 per cent on the capital investment. If there are any other profits these are to go to the Government for the benefit of the people of Canada and also within reason to restrain banks, through its branches, in remote portions of the country from charging unreasonably high rates of interest. Such restraint could be practised by the Federal Reserve Bank loaning money (under its open market privileges), direct to the people at a low rate of interest.

(g) To act as a disciplinary body for banks which might be disposed to engage in questionable undertakings on a large scale or depart from the usual banking practices so as to endanger the deposits of the general public and the shareholders of the bank. The Federal Board to have the necessary powers through committees to investigate the member banks, their business operations, their assets and liabilities, with a view of protecting the public.

(h) To exercise, through its Boards of Directors, inspection in a general way for unusual financial operations of the member and other banks.

(i) To carry out the duties, generally speaking, such as are now performed by the Treasury Board and the trustees of the gold reserve and the Department of Finance with respect to note issue, pledge of securities and banking operations under the Finance Act of 1914 and all other banking functions operated by the Department of Finance, with the exception of such supervision and control by the Government for the Federal Reserve Bank as circumstances may warrant to protect the public interest in connection with those matters.

APPENDIX No. 2

Location.

The Head Office of the Federal Reserve Bank would be in some important Eastern centre and for the time being the branches would be the offices now operated by the Receiver General in different portions of the country and the machinery in the Receiver General's office could be taken over by the Federal Reserve Bank.

No Bank Combines.

The Federal Reserve Bank, representing the banking interest of the people of Canada, through the Government, would have the power and duty to take such steps as may be necessary to avoid arrangements for unreasonable high rates of interest, to check activities of banks engaging directly or indirectly in any other business excepting banking, to stop the banks or bank managers acting as insurance agents or agents for diverting business under pressure to their own trust companies and to stimulate a fair and reasonable competition among banking institutions, giving a maximum of service to the public with a minimum of cost and also to eliminate, as far as practicable, any unnecessary duplication of branch banks in small towns. The existence of a Federal Reserve Bank would be a guarantee to every community for better protection of other banking interests and financial operations and would also be of great assistance to provincial and municipal bodies in connection with their financial operations.

An example of a practical scheme to change our present Government Banking System without control, discipline or inspection into a Federal Reserve System with control, discipline and a reasonable inspection.

Dominion Notes in circulation as at 28th February last totalled \$246,000,000. Gold held at that date against the notes was \$146,000,000. Securities against which Dominion Notes were issued were therefore \$100,000,000. By the seventeen banks of Canada subscribing a capital in gold of fifteen million and taking over the Government's gold and liabilities on the notes, a short statement by way of illustration appears, as follows:—

ASSETS	
Gold..	\$205,000,000
Government securities..	100,000,000
<hr/>	
LIABILITIES	
Gold, capital..	\$ 15,000,000
Gold, deposits by banks..	50,000,000
Deposits by chartered Banks <i>re</i> Dom. Gov. notes.	250,000,000
<hr/>	
Total..	\$315,000,000

Explanation of Assets.

The \$205,000,000 is made up of the receipts of the \$15,000,000 capital in gold. The \$50,000,000 in gold which the member banks now have and would deposit to their own credit and finally the \$146,000,000 in gold which the Government has as a reserve for its note issue of approximately \$250,000,000. The \$100,000,000 is, of course, the securities placed in the hands of the Government by chartered banks for notes which the Government has authorized and constitutes the differences approximately between the gold reserve and the Government note issue in circulation.

Explanation of Liabilities.

The first item is the share subscription, the second is the liability of the Federal Bank to the member banks for gold placed with it on deposit and the

third is approximately the liability of the Government, now the Federal Reserve Bank, for the notes which it has issued. The Federal Reserve Bank would assume obligations to redeem outstanding notes in exchange for which would be issued the Federal Reserve Bank Notes, guaranteed then as now by the Government, the premier responsibility being with the Federal Reserve Bank behind which is its assets and the double liability of the member banks as shareholders.

At the end of January last the chartered banks hold \$182,000,000 of the \$250,000,000 of the note issue. As these notes came in they would be deposited with the Central Bank, presented to the Government which would exchange them for notes of proper proportion of gold and securities, which the Government now holds against those notes. The same process would operate with respect to Dominion notes in the hands of the Government because once they came in they would not go out, but instead they would be paid out in Federal Reserve Bank notes.

On a basis of 40 per cent which is the system in the United States the gold reserve of \$205,000,000 would support a note issue of over \$500,000,000 as against the present note issue of approximately \$250,000,000. In other words, without changing materially our financial structure so far as notes and gold are concerned and with absolute security and safety the loaning facilities of the banks could avail themselves of it by rediscount and would be increased \$250,000,000 so that in time of business expansion or business depression there would be an elasticity that would greatly add to the farming, commercial, shipping and industrial enterprises of Canada.

Redemption of Small Dominion Notes.

Small Dominion notes, now amounting to \$75,000,000 would be issued by the Federal Reserve Bank. The deposit of the chartered banks with the Federal Reserve Bank reduced by \$75,000,000 by the withdrawal of that amount from the Federal Reserve Bank would alter the item of liability in this manner:—

Capital.. . . .	\$ 15,000,000
Outstanding in notes (must have gold reserve of \$30,000,000, that is, 40 per cent of \$75,000,000 for notes).. . . .	75,000,000
Bank deposits (35 per cent in gold, this is \$79,750,000—would now be \$50,000,000 plus \$75,000,000).. . . .	125,000,000
Total.. . . .	<hr/> \$215,000,000

On this basis the total of gold reserve required by law, that is, 35 per cent on deposits and 40 per cent on notes, would give \$109,750,000 in gold. The bank would have, in fact, a total in gold of \$205,000,000 detailed above. There would therefore be free in gold about \$95,000,000 as a base on which to issue further notes. On a basis of 40 per cent this additional increase in loan currency would amount to the sum of about \$250,000,000, that being the same amount referred to in previous discussion as being available for additional loans if a Federal Reserve Bank was created. For further business it would be possible to cash in on Government securities the remainder of \$100,000,000 if this were necessary.

It is to be emphasized that these facilities for rediscount and for extending the loanable credit, not only that the member banks would have an opportunity

APPENDIX No. 2

to avail themselves of such extended credit, but that the member banks in times of business depression could ease off the severity of their demands on the farming, commercial and industrial community, thus avoiding unnecessary panics and liquidations, while on the other hand those loanable credits would exist in time of business expansion for legitimate loans to the farming, commercial and industrial community, particularly when the banks lacked the capital or had too many of their assets in a frozen condition.

Banking Capital Insufficient.

In 1904 the banking capital was approximately \$80,000,000. The year 1904 being taken because it was a normal business year; commerce, industry and finance could not be said to have been unduly expanded or deflated.

As at December, 1923, the total paid-up banking capital was \$125,000,000, the total reserve amounting to \$130,000,000. Approximately there was an increase of 50 per cent in the capital. During the time the bank clearings increased from \$1,625,000,000 to over \$20,000,000,000, while the total assets of the banks increased from \$694,000,000 to over \$2,500,000,000, as at 28th of February, 1923. Of the total paid-up capital of \$125,000,000 approximately \$72,000,000 at the end of 1922 was invested in bank premises while another \$5,000,000 was tied up in real estate, other than bank premises; so that of the liquid capital there remained as a base to all these financial operations about \$48,000,000. The reserve, of course, is an important item, too.

Conclusion.

Our banking system to-day is not on a gold basis. The increase in deposits (about four times), loans and clearing between 1904 and 1922 is enormous while the increase in capital is small and when you consider that there was only about \$10,000,000 invested in bank premises in 1904, it will be seen that the available capital for this super-structure of credit is less to-day than in 1904. The idea of a Federal Reserve Bank is to give greater stability to all the financial operations in Canada, to strengthen the banks, to provide elasticity of credit better facilities for our export trade, Canada to-day being the greater per capita than any other country, except New Zealand, to protect the public against undue pressure and bankruptcy in times of financial depression and to assist the public with financial credits in times of business expansion. It is not an institution forcing any expansion or depression, but allows the same business considerations, skill and judgment to be exercised on the part of the member banks as now exist.

Canada is probably near the commencement of an era of increased immigration population, expansion of business and prosperity. Are the banks with such little capital and with comparatively little cash reserve and without the usual gold basis able to provide properly for the business demands of the people of Canada? A Federal Reserve Bank can do much good, it cannot possibly do any harm. It takes the Government out of the banking business with certain reservations in the interests of the public by way of inspection and disciplinary powers through its directors on the financial operations of all banks.

The history of the Canadian banking system shows regular periods of about every ten years, with the exception of the war period, of expansion and depression, each depression bringing about panic, bankruptcy, low prices, distress, poverty and hardships. Our history is full of lessons which would teach anyone the wisdom of providing in the future against some of the misfortunes of the past. Every important country of the world has a Federal Reserve Bank, financed as a world operation and Canada must sooner or later have such an institution.

EXHIBIT No. 9

(Submitted by Mr. Ladner, M.P.)

LIABILITIES TO THE PUBLIC AS AT 30TH DECEMBER, 1922, ACCORDING TO RETURN IN GAZETTE OF 30TH DECEMBER, 1922

1. Notes in circulation.....	\$ 176,201,351
2. Balance due to Dominion Government after deducting advances for credits, pay lists, etc.....	48,022,846
3. Balance due to Provincial Governments.....	30,560,457
4. Deposits by the public payable on demand in Canada.....	537,613,056
5. Deposits by the public payable after notice or on a fixed day in Canada.....	1,184,703,596
6. Deposits elsewhere than in Canada.....	238,350,768
7. Deposits made by and balances due to other banks in Canada.....	11,757,121
8. Due to banks and banking correspondents in the United Kingdom.....	8,482,349
9. Due to banks and banking correspondents elsewhere than in Canada and the U.K....	30,163,550
10. Bills payable.....	8,506,825
11. Acceptances under letters of credit.....	20,267,255
12. Liabilities not included under foregoing heads.....	2,835,713
Total.....	\$ 2,347,464,887

LIABILITIES TO PUBLIC AT END OF YEAR

	1904	1908	1912	1916	1920
	\$	\$	\$	\$	\$
1.....	\$ 64,507,394	\$ 73,058,234	\$110,048,357	\$148,197,971	\$234,339,923
2.....	5,508,446	4,343,942	15,354,196	44,369,145	136,192,726
3.....	7,148,442	11,622,015	24,258,460	18,901,887	18,534,080
4.....	134,280,104	210,180,147	379,777,219	459,277,454	686,754,094
5.....	319,132,078	429,719,218	632,641,340	836,593,269	1,292,009,008
6.....	38,814,613	66,903,934	87,050,132	162,207,247	351,780,924
7.....	5,684,483	7,900,062	6,640,203	8,955,789	12,006,703
8.....	2,452,651	2,186,228	8,312,049	2,635,484	5,475,760
9.....	1,224,203	2,979,940	7,982,109	16,115,183	35,220,324
10.....				5,372,795	9,796,509
11.....				9,327,931	48,763,093
12.....	8,353,622	6,017,033	20,387,004	4,260,333	4,705,575
Total.....	587,106,036	814,910,653	1,292,451,069	1,716,214,488	2,835,578,719

EXHIBIT No. 10

(Submitted by Mr. Ladner, M.P.)

LIQUID ASSETS END OF YEAR

	Dec. 30, 1922
1 Gold and other coin.....	\$ 93,789,305
2 Dominion Notes.....	182,686,820
3 Deposits with and balances from other banks in Canada.....	5,252,975
4 Due from banks and banking correspondents in United Kingdom.....	9,824,836
5 Due from Banks, etc., elsewhere than in Canada and United Kingdom.....	61,578,126
6 Dominion and Provincial Government securities.....	201,836,520
7 Canadian Municipal Securities and British or Foreign Public Securities.....	96,432,184
8 Railway and other bonds, debentures and stocks.....	42,320,184
9 Call and short loans in Canada.....	98,383,580
10 Call and short loans elsewhere than in Canada.....	185,653,891
11 Notes of other banks.....	43,921,184
12 Cheques on other banks.....	116,527,704
13 Central Gold Reserves.....	61,202,533
Total.....	\$1,199,409,842

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LIQUID ASSETS

	1904	1908	19 2
	\$	\$	\$
1.....	17,617,529	27,099,074	33,780,333
2.....	38,436,983	66,124,760	94,584,474
3.....	8,183,400	12,350,702	9,217,009
4.....	9,041,191	14,662,030	10,119,957
5.....	20,849,499	34,929,007	23,435,488
6.....	9,561,422	10,497,945	9,872,832
7.....	17,241,673	19,606,371	23,427,430
8.....	38,744,635	44,213,479	68,847,249
9.....	38,950,978	43,827,771	70,655,661
10.....	48,782,441	97,136,400	105,952,101
11.....	23,784,768	36,393,247	81,684,415
12.....			
13.....			
	\$ 271,194,519	\$ 406,840,786	\$ 531,569,959

LIQUID ASSETS END OF YEAR

	1916	1920
	\$	\$
1.....	82,563,868	86,721,023
2.....	118,842,892	190,640,870
3.....	6,079,847	5,665,828
4.....	27,268,638	14,033,092
5.....	48,423,944	69,204,244
6.....	29,679,369	121,250,951
7.....	165,470,146	196,671,950
8.....	65,262,257	47,050,105
9.....	89,395,370	108,471,340
10.....	183,250,389	218,183,194
11.....	16,196,804	59,230,058
12.....	73,905,541	150,576,909
13.....	43,300,000	114,902,533
Total.....	\$ 949,639,065	\$ 1,382,602,097

EXHIBIT No. 11

(Submitted by Mr. Ladner, M.P.)

STATEMENT OF CAPITAL, RESERVES, ETC., OF CHARTERED BANKS

	Dec. 31, 1890	Dec. 31, 1900	Dec. 31, 1910	Dec. 31, 1920	Dec. 31, 1922	Feb. 28, 1923
	\$	\$	\$	\$	\$	\$
1. Total paid up Capital...	60,057,235	67,087,111	99,676,093	128,066,769	125,291,934	125,323,786
2. Total reserve.....	21,940,369	34,501,349	83,965,869	133,048,505	130,675,000	
3. Total number of branches in Canada—See Note below.						
4. Dominion notes in circulation.....	15,601,798	28,370,189	90,722,905	311,714,486	257,269,125	
5. Gold held for redemption of Dominion notes.	3,342,341	14,931,088	69,147,842	97,145,774	129,432,385	
6. Bank circulation Redemption Fund.....	Nil.	2,407,648	4,301,406	5,959,083	6,454,150	6,454,150
8. Bank Notes in circulation.....	35,006,274	50,758,246	87,694,840	228,758,587	176,201,351	156,714,857
9. Percentage of Bank notes in circulation to paid up Capital.....	58.3	75.7	88.0	178.6	140.6	125.0

Note concerning number of branches of chartered banks. As the number of branches operated by the Banks has never been shown on any return, the Department of Finance has no official information. We have, however, been able to ascertain from reliable sources that the numbers operated in the years 1899, 1910, 1920 and 1922 were as follows:—

1900	—	641	1910	—	2,368	1920	—	4,676	1922	—	4,472
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EXHIBIT No. 12

(1) Gold and Dominion Notes held in Central Gold Reserve as of December 31st.

	Gold	Dominion Notes	Total
1920.....	11,502,533	101,850,000	113,352,533
1921.....	10,502,533	57,950,000	68,452,533
1922.....	14,002,533	47,200,000	61,202,533

(2) Market value of real and immovable property as of December 31st.

	Bank Premises	Real estate other than bank premises	Total
1890.....	4,187,572	1,027,107	5,214,679
1900.....	6,496,104	1,145,701	7,641,805
1910.....	25,191,619	1,360,966	26,552,585
1920.....	60,376,915	4,323,027	64,699,942
1921.....	69,480,648	4,582,328	74,062,976
1922.....	71,826,756	5,614,726	77,441,482

(3) Advances of Dominion Notes against securities approved by the Treasury Board as of December 31st.

1920.....	108,707,960 75
1921.....	86,858,931 00
1922.....	28,574,074 92

(4) Excess Circulation as of December 31st, authorized by Section 61, of the Bank Act.

1920.....	196,398 19
1921.....	1,093,089 00
1922.....	579,725 50

EXHIBIT No. 13

(Submitted by Mr. H. O. Powell)

Weyburn, Sask., March 21, 1923.

The Managers,
The Weyburn Security Banks.

Re Summary of Farmers' Comparative Statements

DEAR SIRs,—Following is a summary of our investigation which we believe you will find interesting. It would of course, be quite out of the question to make up a report of this nature that would be absolutely correct in every detail, but when you consider the territory it covers and the number of different personalities participating in its make-up, we are satisfied that the figures are valuable and well worth the time and work spent in compiling them.

Average number of years	Average liability on arrival	Average net worth on arrival	Average liability now	Average net worth now	Average accumula- tion while here	Average annual accumula- tion as computed from statements	Average annual accumula- tion after deducting unearned increment in land values
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
12	2,870 44	1,942 95	5,608 53	14,914 82	13,103 60	1,045 24	628 28

The actual average profit excluding increase in land values:—\$628.28.

Renters.....	\$ 393.46
Land owners (average).....	641 72
Farmers $\frac{1}{2}$ section.....	295 79
Farmers $\frac{1}{2}$ section.....	488.46
Farmers over $\frac{1}{2}$ section.....	779.83

The Credit Department,
THE WEYBURN SECURITY BANK.

APPENDIX No. 2

FRIDAY, April 27, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: I have a statement which I received some time ago, and I do not think I had it put into the record. I cannot recall doing so, and if the members of the Committee desire it to be printed it shall be done. It is a statement showing by provinces the number of branch agencies and sub-agencies of the chartered banks as of February 28, 1923; that is it shows the number of agencies of each chartered bank of Canada in each province of Canada. If the Committee desire that to be printed I will hand it in. It is a statement prepared by the Department of Finance.

Several Honourable MEMBERS: Yes.

EXHIBIT No. 14

DEPARTMENT OF FINANCE, March 20, 1923

STATEMENT SHOWING BY PROVINCES NUMBER OF BRANCHES, AGENCIES AND SUBAGENCIES OF CHARTERED BANKS, AS OF FEBRUARY 28, 1923

Name of Bank	Ontario	Quebec	Nova Scotia	New Brunswick	P.E.I.	Man.	Sask.	Alta.	Br. Col.	Yukon	Total in Canada
Bank of Montreal.....	218	86	15	15	1	47	77	84	59	1	603
Bank of Nova Scotia..	146	21	46	41	13	10	15	4	5	.....	301
Bank of Toronto.....	84	10	.....	.....	.....	12	32	13	4	.....	155
Molson's Bank.....	74	46	.....	.....	.....	2	.....	3	3	.....	128
Banque Nationale.....	5	333	.....	7	.....	.....	.....	.....	.....	.....	345
Banque Provinciale du Canada	24	252	.....	25	3	.....	.....	.....	.....	.....	304
Union Bank of Canada.	98	11	2	3	1	66	101	67	9	.....	358
Canadian Bank of Commerce.....	138	84	25	7	8	34	78	62	59	2	497
Royal Bank of Canada	198	60	67	25	10	37	84	40	53	.....	574
Dominion Bank.....	85	5	.....	1	.....	11	6	6	4	.....	118
Bank of Hamilton.....	72	1	.....	.....	.....	30	27	12	10	.....	152
Standard Bank of Canada.....	113	1	.....	1	.....	6	18	23	1	.....	163
Banque d'Hochelega..	31	285	.....	.....	.....	21	11	9	.....	.....	357
Imperial Bank of Canada.....	105	2	.....	.....	.....	10	34	28	18	.....	197
Home Bank of Canada	51	4	.....	.....	.....	10	10	2	2	.....	79
Sterling Bank of Canada.....	67	1	7	4	79
Weyburn Security Bank.....	24	24
	1,509	1,202	155	125	36	303	521	353	227	3	4,434

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DISCUSSIONS

THURSDAY, March 8, 1923.

The Committee met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The Committee proceeded to the consideration of the following resolution:

"That, in the opinion of this House, the question of appointing a representative Parliamentary Committee to investigate the basis, the function and the control of financial credit, and the relation of credit to the industrial problems, be referred to the Select Standing Committee on Banking and Commerce."

The CHAIRMAN: Gentlemen, before we proceed with that Order I would like to present this motion to you, because it will be necessary.

Moved by Mr. Stevens, seconded by Sir Henry Drayton that the Committee recommend to the House that they be given leave to sit while the House is in session and to have their proceedings printed from day to day for the use of the members of the Committee when deemed advisable and that Rule 74 should be suspended in reference thereto.

Motion agreed to.

The CHAIRMAN: Gentlemen, the last business on the Order Paper is Mr. Irvine's Resolution which was adopted in the House some time ago and I think it is desirable that we proceed to the consideration of it with the hope of determining what shall be the scope of the inquiry and with the hope also that we can give it some concrete proportion.

I presume that most of the honourable gentlemen heard Mr. Irvine's address. I did not have the pleasure of hearing very much of it so I had to read it very carefully and I discovered there was considerable reference to myself but I will not refer to that to-day.

Mr. Irvine in his discussion of the Resolution refers to the fact that there is an agricultural and industrial depression in Canada with very considerable unemployment, and he proceeds to argue what in his judgment are the causes for such conditions.

I think the close of his remarks summarizes his observations pretty well. At the close of his remarks he states that the banking system and the finance system of the world are in danger of collapse and he suggests an investigation so we may ascertain what course to pursue in the event of this thing happening. He wants some changes that will give us greater circulation of currency, that will stir up our industries, increase our home markets, and solve the problem of distribution—I think Mr. Irvine meant "consumption," in some cases; probably not all,—and preventing the paying of huge sums in interest.

Mr. Irvine in his argument developed his theory of why should we go to the United States and borrow money and that there was no reason why we should pay a \$108,000,000 of interest annually—

Rt. Hon. W. S. FIELDING: \$158,000,000.

The CHAIRMAN: \$158,000,000 annually in interest to the United States. We should be rid of that altogether.

However, Mr. Irvine's debate on the Resolution in a general way I suppose was intended to be more or less academic, but I think we must call upon Mr.

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Irvine to address the Committee now and tell us, if he can, just what he thinks should be the scope of the inquiry, how we shall proceed to conduct that inquiry and what suggestions he would make as to the conduct of the inquiry, and also this: What proportion of the Resolution might not be carried on concurrently with our consideration of the Bank Act.

Mr. IRVINE: I am not going to speak very long. The chief object which I had in view in making this motion was to get more knowledge about the giving of credit, the finance system generally, and if it has any effect upon our industrial system. That is the main thing for this committee to take up, the getting of information which will leave no doubt in the mind of any member of this committee as to what is the basis of credit in Canada, and on what basis credit is issued. The investigation should be proceeded with, along that line, I think, and we ought to be able to call witnesses with regard to present industrial difficulties in Canada, to get the viewpoint of labour, of the manufacturers and of others, as to what is the cause of the present industrial paralysis. Then we ought to be able to call witnesses to give us an idea of how to proceed, if we discover that there is something wrong with the basis of financial credit, how to proceed to rest it upon a better basis. That, in a general way, was what I had in mind when I proposed the resolution. If the committee decides to make an investigation along those lines, I am prepared to give more specific suggestions as to how the investigation might proceed.

The CHAIRMAN: Mr. Irvine, I suppose that when we come to consideration of the Banking Act, some of the leaders of the banking circles of Canada will be before the Committee, and I think you would get a good deal of the information you require from an examination of them.

Sir HENRY DRAYTON: Mr. Chairman, my idea about this motion is that Mr. Irvine should be given a little more freedom than that. Of course, in a general discussion, he will have the opportunity of asking questions and getting information, but I apprehend that Mr. Irvine has other sources that he wishes to disclose as to what ought to be done. I think everybody, if they can improve conditions, would like to improve them. I am quite sure that is the case, and it would occur to me that the committee should give Mr. Irvine this right, and let him go ahead with it now; he cannot to-day, of course, but at the earliest moment, the right to submit to the Chairman in the usual way a list of witnesses whom he desires to have subpoenaed here, and if possible we should let him do so. I think we ought to give him at least two or three days when he would have the floor, have his witnesses here, and get all the information that he desires. We cannot get too much information, and I think there is one thing that was spoken to by Mr. Speakman in the address, in which we are always very much interested, and that is the question of farm credits. Some gentlemen think that some of the troubles of the West have been caused by credits being unduly withheld; others think that some of the great difficulties of the West have been due to the fact that credits have been too generously given, and that in some instances to-day farmers are hard up because they signed notes that they never should have signed, and have assumed obligations that they should not have assumed, but whatever the fact, whatever the real solution may be, it is one of the most important things that this country has to face at the present time, and that is to find out what is really the very best thing that can be done for our largest activity. They require money, and I have no doubt that Mr. Irvine and Mr. Speakman will have witnesses to call, so it occurs to me that we would make better headway by giving these gentlemen the right of way.

When I suggested, or rather concurred in the suggestion of the honourable the Finance Minister, that this question should go to this committee, I did so

APPENDIX No. 2

because I thought that was the proper place where it could be best considered, and I would therefore suggest that these rights be given to Mr. Irvine and those associated with him, of subpoenaing their witnesses, and we ought to lay aside some time when they would have the right of way, so the whole matter can be properly vented.

The CHAIRMAN: What I was trying to get at is this: what portion of Mr. Irvine's resolution might be the subject of inquiry as we proceed from day to day with consideration of the Bank Act. If you have read the speech of Mr. Irvine, it is clear that this is what was in his mind; he was not asserting positively, but he said that credit was a social asset, and was controlled by the bankers; in fact, he made that assertion, and that is the most important part of his argument, I think. During our consideration of the Bank Act we will have representatives of the banks here, so I thought that while we were proceeding with some sections of the Act, Mr. Irvine would be able to get what information he could from them, although he might want that supplemented from others, of course.

Mr. IRVINE: Yes, I agree with the Chairman to a certain extent, that we will get a good deal of information, I hope, along the lines required, from the witnesses during the discussion on the Bank Act.

The CHAIRMAN: Is there anything in particular, any line of inquiry you would like to proceed with immediately, say on Monday or Tuesday?

Mr. IRVINE: I do not know that I will be able to proceed at that early date, but I would like it if the committee would adopt the suggestion of Sir Henry Drayton, of giving me an opportunity of submitting a list of witnesses.

Hon. Mr. FIELDING: I would agree with that, that an opportunity be given Mr. Irvine to prepare a list of witnesses he would like to summon. May I put just a word of caution in that; the subject is a very broad one, and you could conduct an investigation for a long time, and call an army of witnesses. I think Mr. Irvine and others who prepare lists should be careful to summon witnesses who they really believe would contribute something useful. Subject to that, I place no limitations whatever, I think we all desire a full investigation, but we might make the mistake of calling a lot of people, and adding a lot of expense unnecessarily. I would suggest, therefore, that they only place on the lists the names of people they have reason to believe can contribute something useful, and with that qualification I should like to see Mr. Irvine have a free hand.

Mr. STEVENS: I would like to point out that in that case your reference would have to be amended, because as it is now the only thing referred to this committee is the question of appointing a representative parliamentary committee to do these things, As to the rest of the resolution, we are limited to certain definite and specific things, so I think that before any monetary obligations are incurred, the committee ought to be perfectly clear as to what its duties are.

Hon. Mr. FIELDING: The resolution in that form does not give expression to the idea which Sir Henry Drayton and I had; the motion was simply that the resolution should be referred to the committee; I think the suggestion was made that we should get special instructions, but the debate in *Hansard* will show. I am not sure whether Sir Henry Drayton moved it and I seconded it, or whether I moved it, but we agreed that the resolution be referred to the committee. Unhappily, it was not put in writing by myself, and the clerk or Speaker, in endeavouring to convey our impression, has it in an erroneous form.

Mr. STEVENS: My point is that before any monetary obligations are incurred for witnesses, our duties ought to be, and must be, made perfectly clear.

The CHAIRMAN: I am going to ask the House to adopt a recommendation to that effect.

Mr. HANSON: I would like to point out that in its present form, assuming the intention of the Finance Minister has been carried out in the House, the scope of his enquiry is limited, it does not begin to cover some of the things outlined by Mr. Irvine, or suggested by Sir Henry Drayton. It says:

"To investigate the basis, function and control of financial credit and the relation of credit to industrial problems."

The CHAIRMAN: It seems to me that is rather a wide range; you could write a library on that.

Hon. Mr. FIELDING: The intention was that the resolution itself should be referred to the committee, and the committee should decide what it would go into. The agricultural side presses me most strongly, and I hope that Mr. Irvine will give priority to that.

The CHAIRMAN: I was going to remark that the question of farm and rural credits is one that has been debated in the House and I suppose, that many thousands of bills in reference to the matter have been introduced into the United States Congress and State Legislatures; it is not a new subject, but if that is a part of the enquiry, it will not be very difficult to get that, knowing what we are after. I do not know whether that was in your mind or not; perhaps it is a little off the subject.

Mr. IRVINE: You refer to the rural credits?

The CHAIRMAN: Yes.

Mr. IRVINE: The investigation will centre pretty much upon the necessity for credit being extended to farmers. If I might speak to the objection of Mr. Hanson, I would say that if we can find a proper basis for financial credit in general, that will include rural credits, as it will all others.

Mr. JELLIFF: I see that Mr. Speakman is in the room, I did not know that he was here, so I will not say very much except that a number of us on this committee who are farmers, are very much interested in the investigation of the rural credit system.

The CHAIRMAN: Might this not come before the Special Agricultural Committee? Might we not be overlapping?

Mr. JELLIFF: It might, Mr. Chairman, but we had the idea that if we could get before this committee something like the legislation that has been enacted in the United States, along the lines of Farm Credit Loans, and also on the lines of the Rural Credit Bill, which they just passed about a week ago, it would be very helpful to us in our considerations here, and I think that is what Mr. Speakman wishes. If I have stolen his thoughts, I did not intend to.

Mr. SPEAKMAN: That is correct. I would like to suggest, if the committee intends to conduct an enquiry of that nature, and if that would be satisfactory to the committee, and if I have the permission of the Chairman, I will prepare a list, having in mind what the Minister of Finance has said, that none but absolutely essential men be called. I will prepare a very very short list of witnesses. But before discussing that, we desire to have the assurance that the committee will go into this question, at least to a fair extent. If we have that assurance, we will prepare a list of witnesses which will be submitted to the Committee.

The CHAIRMAN: That is, as to rural credits?

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Mr. SPEAKMAN: Yes. Personally, I would like to see an investigation along general lines, but my own inclination is more along the line of rural credits, though I would like the investigation to cover things in general.

Hon. Mr. FIELDING: My own desire is that the question of rural credits should receive the most ample inquiry. I am sure that any suggestion that is made will be concurred in by the Committee. But he will realize the importance of calling only those who would be useful. I would like him to feel that in that matter he will have a free hand, though the suggestions would have to be submitted to the Committee.

Mr. SPEAKMAN: We will prepare a list of the witnesses, now that we have got that assurance.

Hon. Mr. STEVENS: Would it not be well for the Chairman of this Committee to confer with the Chairman of the Special Committee investigating the whole problem of agricultural difficulties, to ascertain whether they intend doing similar work. If they do, it seems to me it would be most unfortunate that two committees should be functioning along the same lines. The reference to the Special Committee on Agriculture was very broad. I would like to suggest this, because you will have to have a reference to the House, that the Chairman should confer with the two gentlemen who are promoting this inquiry, and also confer with the Chairman of the Special Committee on Agriculture, and at a subsequent meeting of this Committee, report.

The CHAIRMAN: I think our discussion has been of some use. After all, if there is a special inquiry into agricultural credits, that, along with the inquiry into the control of credits, which is really a part of the banking system of this country, should enable Mr. Irvine to pretty well cover what was in his mind.

Mr. IRVINE: You can readily see that you can discuss rural credits on the basis of the Banking Act, as it stands to-day, and you can discuss rural credits on some other basis. If we confine the discussion of rural credits to the basis on which I would like it to be discussed, namely the basis on which our credit is issued in Canada now—if it is issued properly to farmers, it may be issued properly to everybody else, for the rural credits' question is not separate from the question of credit in general. We could cover the whole basis of the resolution, specializing along rural credit lines.

The CHAIRMAN: What would you think of the idea of naming a special committee to recommend the names of parties who might be called as witnesses. If you will agree to that, I will name four persons.

Hon. Mr. STEVENS: Before that, it seems to me that you should determine what you are going to do. We have nothing before us of a specific character, and there is a possibility of a conflict of discussion in this Committee and in the Special Committee on Agriculture.

The CHAIRMAN: I shall confer with the Chairman of the other Committee. I am going to ask the Committee to report to the House as follows:—

“With regard to the resolution respecting the basis of credit referred to your Committee on the 26th February, which reads as follows:”

We will give the terms of the resolution—

“Your Committee have formed the impression that the resolution as worded has the effect of restricting, in a manner not intended by the House, the scope of the inquiry to be made by the Committee. They therefore respectfully request that an instruction may be given them by the House, with a view of making clear the nature of the inquiry to be made by your Committee.”

Hon. Mr. STEVENS: You want a definite scope in that resolution?

The CHAIRMAN: That will be done.

Hon. Mr. STEVENS: May I suggest that a subcommittee consisting of yourself, Mr. Chairman, Mr. Irvine, Sir Henry Drayton, and perhaps one or two others, be appointed to deal with this whole question, including a conference with the Chairman of the Special Committee on Agriculture, and then present to the House a definite scope of inquiry and ask that the Committee be authorized to carry on, call witnesses, etc. If you do not limit in some way the scope of this inquiry to some definite proposals, I am afraid that we shall have difficulty in getting along.

Hon. Mr. FIELDING: I do not like the expression used by the Chairman to the effect that the resolution restricts the inquiry. I think the inquiry as mentioned in the resolution is broad enough, but it lacks specific direction.

The CHAIRMAN: There is nothing before the Committee at all. The resolution as it stands on the Order Paper simply deals with the question of appointing a representative parliamentary committee. There is nothing beyond that.

Hon. Mr. FIELDING: That, of course, is not the intention.

Sir HENRY DRAYTON: The intention was clearly that everything that Mr. Irvine wanted inquired into by a special committee should be inquired into by this Committee; and I think we should proceed upon that basis. In order to put the thing absolutely right, why not report to the House, recommending the adoption of what the Minister of Finance moved. It may be too broad, but I do not want to limit the inquiry at all.

The CHAIRMAN: If this recommendation were adopted, the instruction which would come from the House to the Committee would just cover what Mr. Irvine wanted.

Hon. Mr. STEVENS: I do not think it would.

Hon Mr. FIELDING: May I suggest that the report should be, not that the resolution restricts the inquiry, but that it appears to the Committee that the resolution as referred to them does not quite correctly represent the desire of the House, that the Committee understands that the purpose was to refer to the Committee on Banking and Commerce to investigate—then set forth the terms of the resolution—and that they desire to have it confirmed. If they adopt that report, then you have your instructions.

Mr. HANSON: I may say that the Special Committee on Agriculture have definitely on their agenda the question of rural credits. If that is correct—and I have no doubt that it is correct—that would eliminate a large portion of the proposed inquiry here.

Sir HENRY DRAYTON: The only trouble about that is, that the information that the Special Committee on Agriculture will get, will be in regard to the necessity of the farmers getting credit. On the other hand, we are here dealing with the sources from which that money can be got. After all, the great repositories of the country's wealth are the banks, and the banks cannot very well be handled by a Committee that has nothing to do with the Bank Act. It does seem to me that this is the place where the matter should be inquired into if you are going to find a remedy or relief. In the Special Committee on Agriculture all they have in mind is the necessity for relief.

The CHAIRMAN: A few words will fix the whole thing. How would it do to appoint a Committee consisting of Mr. Irvine, Mr. Speakman, Sir Henry Drayton and myself to go into the question of witnesses, and confer with the other Committee and report.

Carried.

The Committee adjourned.

TUESDAY, March 13, 1923.

The Committee met at 11 o'clock a.m. Hon A. K. Maclean in the chair.

The CHAIRMAN: The first order of business is:—

Resolution by Mr. Irvine: Receiving report of sub-committee regarding witnesses to be called, and the scope of the inquiry.

A sub-committee was appointed at the last meeting to confer with Mr. Irvine as regards the requirements of his witnesses. That sub-committee consisted of Sir Henry Drayton, Mr. Speakman, Mr. Irvine and myself. I have drafted a report, and the other members will be able to tell whether I cover the points of the report:—

(For this Report, see Minutes of Proceedings, p. 7.)

The CHAIRMAN: Mr. Irvine informed the Committee that Major Douglas was coming to America, and he thought it would be very easily arranged that he should come to Ottawa. In that event I presume there would be no objection whatever to having him come here. As to Mr. Henry Ford it depends entirely on his willingness to come here. We will be glad to give him some money to help him along after he strikes the border, Mr. Irvine should inquire if Mr. Ford is willing to appear before the Committee. If Mr. Irvine receives a favourable response, an invitation would be sent to Mr. Ford by the Chairman of the Committee.

Sir HENRY DRAYTON: While we had agreed, owing to the agenda adopted by the Agricultural Committee, that the farming end of the rural credit was to be looked after by them, so that we would not have the spectacle of witnesses being taken first to one committee and then to another, I think we also agreed that Mr. Irvine would not be limited in his examination, on the financial end of it, as to the feasibility of extending such farm credits as the other committee might find desirable, or which we might find desirable. In other words, while we were not to multiply witnesses from the farming end of it, we were not to consider the scope of this investigation so circumscribed that nothing could be said on the question of the feasibility of extending further credits.

The CHAIRMAN: As a concrete proposition, systems of rural credits, as obtaining in other countries, were to be left to the Agricultural Committee. We were not to be absolutely barred from a general discussion.

Sir HENRY DRAYTON: The only thing is that we are not getting it definitely. Let us see if we cannot define it. So far as the farmers' needs are concerned, so far as direct farming evidence is concerned, we are agreed that we should not duplicate that. But I think we are also agreed that it would be open to Mr. Irvine, as part of his general scheme, to put to his witnesses any questions that he likes to put on the matter of the feasibility of a special extension of credits to farmers, or any questions he seeks to put as to the feasibility of any particular scheme. In other words, the sub-committee did not want to in any way limit the inquiry; they simply wanted to get rid of duplication, and I think Mr. Maclean's idea is the same as mine. We are not shutting ourselves out from working in, or developing any line of evidence that we desire to develop from the financial side of farming credits; but we are not going to call farmers for the purpose of showing the necessity of such credits, and the like, because that is already covered by the agenda of the Special Committee on Agriculture.

Mr. SPEAKMAN: I think that Sir Henry has stated the matter accurately. I would not want to have the subject shut out from this Committee and I do not see why we should not have it discussed in the Banking Committee. I quite agree, in view of the fact that this subject is on the agenda of the Special Com-

mittee on Agriculture, that we should not use the same witnesses or elicit the same evidence. As a matter of fact, I have spoken to a number of the members of the Special Committee on Agriculture, and their understanding is the same—that probably the subject would have to be divided, and duplication would have to be avoided as far as possible. They might find it necessary to bring out evidence from the point of view of the need, and the subject might later have to be taken up by this Committee with regard to remedies. But I do not think that it would be desirable or possible to exclude farm credits from the discussion in general in this Committee. I think the conditions can be outlined in the Special Committee on Agriculture, but I would not be inclined to limit myself so that I would be unable to bring up the application of credits to agriculture in this Committee.

Mr. IRVINE: I do not anticipate any clash between the two Committees. I think the investigation of the Special Committee on Agriculture will be along different lines, and we will, I hope, have the privilege of applying any facts or conclusions at which they may arrive specifically to the needs of agriculture.

The CHAIRMAN: Systems of financial credits are applicable to all occupations or productions.

Mr. IRVINE: Only our present Banking system does not lend itself readily to giving long credits to farmers, and it might be possible for us to discuss that.

The CHAIRMAN: That would come up under the Banking Act itself.

Mr. IRVINE: I would like to understand whether in the event of any of the witnesses I have asked for not coming for a reason, I would be permitted to submit names in their places, to the number of four; that is, special witnesses. In the event of any evidence which they might give being seriously questioned, might I be allowed to call other witnesses to substantiate that evidence if necessary.

Mr. GOOD: I hope there will be no effort made at this time, or at any other time, to limit the Committee in the matter of calling witnesses. Personally, I think we ought to have one or two professional economists to ask questions of and to consult regarding any specific suggestions that may be made by men who are not so-called economists. I have two or three names in mind, and I would like very much the privilege of submitting these names, perhaps a little later on.

The CHAIRMAN: That was the intention of the subcommittee. Mr. Irvine is carrying this resolution through, and he was asked what number of witnesses he wanted, and he stated that he would be satisfied with the four gentlemen mentioned. That does not exclude the calling of other witnesses at all, but I think Mr. Irvine had better have his witnesses on first, so that we will know what other witnesses should be later called. I think we understand one another as to the jurisdiction of this Committee, and the Special Committee on Agriculture, and I have no doubt that we will work it out satisfactorily to all interested parties. Is it satisfactory that we afford every facility possible to Mr. Irvine to bring here the four witnesses I have mentioned?

The CHAIRMAN: There is no further business to-day. I am not sure that I will be able to be present every time that the Committee meets, and I would like to move that Mr. Mitchell be deputy chairman of this Committee so that he may act in my absence. Is that satisfactory to the Committee?

Carried.

Mr. W. F. MACLEAN (York): When do you propose to take up the resolution of Mr. Irvine?

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The CHAIRMAN: We are waiting for witnesses, and just as soon as witnesses are available, the Committee will be called to consider the resolution. Members of the Committee may make motions if they desire. Mr. Irvine has named four witnesses whom he would like to have here, Major Douglas of England, Mr. Henry Ford, H. S. Ross and Mr. Bevington, and it is open to any other member of the Committee to move that other witnesses be called.

Mr. IRVINE: I was wondering if we could not come to a general understanding as to when it might be possible to begin the investigation.

The CHAIRMAN: Just as quickly as you can arrange to have your witnesses here. I will confer with you after the meeting.

The Committee adjourned.

THURSDAY, March 22, 1923.

The Committee met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: We will take up Order No. 2, Bill 83, an Act respecting banks and banking. (Minister of Finance). We shall not do very much business this morning. I understand that the Bill introduced by the Minister of Finance came into the hands of members of the Committee only this morning. The members of the Committee will find their names placed on their copies of the Bill, and I would make the request that they take a little care to preserve the copies which they have received, because the supply is limited.

There are some preliminary matters which perhaps should be disposed of this morning, before we take up a consideration of the Bill itself. I have nothing to say upon the Bill. The Minister of Finance explained the measure to the House the other day, and I am sure that most of the members of the Committee heard him. Probably we will make better progress if we adopt some systematic method of procedure, and I am going to propose some regulations, which were adopted by the Committee which made the last revision, for your consideration, and I hope for your adoption. I shall put them in in the form of motions for your consideration. The first is this:

"That the non-contentious sections of the Bill may be first disposed of; any clauses to which there is objections stand on the request of a member for future consideration; that reconsideration shall be permissible on notice of motion."

I should hope that before the Easter holidays we shall have disposed of the non-contentious clauses of the Bill. There may be some difficulty in determining what are the non-contentious clauses. This suggested regulation is quite flexible, because it states that any clause to which there is objection shall stand at the request of a member for future consideration. There are a great many sections of the Bill which I think we may well dispose of without much delay. I presume that the fundamentals of the Act we cannot change very much. It would be necessary for us to be ready to put something in its place if we did. Fundamental changes would require a great deal of time and consideration, and I fancy it would hardly be done during one session of Parliament. It would be rather a matter for the consideration of a Parliamentary Committee between the usual revisions of the Bank Act. This regulation simply means that we shall dispose of what seems to be the non-contentious clauses first.

Mr. W. F. MACLEAN: Do you propose to have a general discussion of the Act?

The CHAIRMAN: Well, would that assist us?

Mr. W. F. MACLEAN: There has not been a discussion in the House. On this occasion a discussion of the general tenor of the Bill, I imagine, would have come up on the second reading, but it did not come up, and I thought perhaps when we got in Committee, there would, for a short time, be some discussion there; if anyone wished to discuss the general tenor of the Bill, they would have an opportunity, but apparently it is all taken for granted.

Sir HENRY DRAYTON: I am not at all sure but what you will make better progress in the long run if we do have some discussion, because we will have to have it sooner or later, and I am not at all sure but what the proper time to have it is before you start considering the principles of your Bill, and the different sections of your Bill. I thought we had rather agreed on that the other day. I thought we rather agreed that Mr. Irvine was to have the right to commence the consideration of these principles, and have his witnesses here. Perhaps he cannot get his witnesses, and cannot get on, but if he cannot, if he had the right in opening to have witnesses here, to go into the field he wants to go into in opening, it would seem to me he should have the right, Mr. Maclean, and anybody else should have the right to discuss any principles of the Bill before asking the Committee to commit themselves on any sections of the Bill. I think we can take the various provisions in the Bill, and can have a proper understanding of the Bill if we do that.

Mr. IRVINE: I quite agree with all Sir Henry Drayton has said, and also with your own statement in the matter, Mr. Chairman. I certainly would not wish to take any action that would retard the progress of the Committee, but as we would likely have a discussion, and this is an enormous Act, I think it would be a good thing if we could let each member of the Committee have an opportunity of reading this over, and getting the general idea, as well as the principal ideas, and then immediately after the Easter holiday witnesses will be here—at least some of them—and I would like to have also an opportunity of questioning representatives of the bankers themselves in connection with the general principles upon which the Bill is based.

Mr. W. F. MACLEAN: Along that line I think it would be a good thing to have the Bill distributed for the members to read over generally, and get their general views, and have one day's discussion on the general principles of the Bill, and then we could go into details. I would make that suggestion that the members have an opportunity to acquaint themselves with the Act and then the contentious clauses may be taken up after one day's general discussion. That is, take up the details, as you suggest, on this list, get the non-contentious clauses through first, if they can be defined, and probably the contentious clauses will be involved in the general discussion if heard early in the meetings of the Committee.

The Hon. Mr. MITCHELL: Could not that discussion take place after the non-contentious clauses have been adopted? The principle of the Bill, as I understand it, when introduced by the Minister of Finance—he laid down that in line with the policy of the Government the Bill generally speaking, should be adopted in the form it is in now, and we could pass the non-contentious clauses and probably in the meantime we would have an opportunity of studying the whole question and making any general remarks we wanted to on the clauses it is intended to amend—the contentious clauses.

Mr. CASGRAIN: We have here English copies of the bill, but we do not appear to have the French copies, and it has been the proceeding in the House that before discussion, either before or after the second reading, the members familiar with the French language should be allowed the privilege of seeing the

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bill in their own language. I would suggest that as long as we have not the French copies, we should not proceed. There may be some of the members outside of the Province of Quebec and there certainly are in the Province of Quebec, who do not understand the English language, and there are some technical terms in this bill. There are also some French bankers in the Province of Quebec who would like to take cognizance and have knowledge of the bill before discussing it, and it is pretty hard to do that when it is only printed in the English language.

Mr. W. F. MACLEAN: Is the French version ready?

Mr. CASGRAIN: No, it has not been printed yet.

The Hon. Mr. FIELDING: I would not desire to press this bill forward until it is printed in the French language. That is the rule of the House, and it should be the rule here. Why, nobody could take exception to it.

Mr. CASGRAIN: We did not do it the other day in the House, because we understood it would be referred here, and that we would have copies of the bill printed in French.

Mr. W. F. MACLEAN: Mr. Chairman, without starting a discussion of whether we should start with the disposition of the non-contentious clauses, I feel we should not proceed in any way until we read the bill. I had it placed in my hands now for the first time, and have not yet had the opportunity of reading it. I think it will take a little while to go through it carefully, and thoroughly acquaint ourselves with the contents of the bill.

Mr. HANSON: There is something, of course, in the contention of the honourable gentleman, but it is to be assumed that every member of the House has some knowledge and information respecting the banking laws of this country, and we are now near the middle of the session, and we ought to do everything we can to expedite the work of the Committee. There are many sections of the bill that are non-contentious, and we ought to make as much progress as possible. I would suggest that the best course of procedure would be to go through the bill as soon as possible and pass the non-contentious clauses, and leave the others, as you have suggested. We will make more progress. Then, a general discussion could take place any time.

The CHAIRMAN: Mr Casgrain has raised an objection which is fundamental, and we cannot very well proceed until the French copy is printed. Sir Henry wishes first to discuss Mr. Irvine's resolution. That is entirely apart from the Bill. It is true that the principles involved in Mr. Irvine's resolution strike at the principle of banking, but the Bill itself can be considered without any reference to Mr. Irvine's resolution. Mr. Irvine's witnesses are not ready. He cannot produce them until after the Easter holidays, and it will be necessary for us to carry along his resolution concurrently with the Bill. We shall give him every opportunity to produce his witnesses, and he will no doubt require to examine some of the witnesses produced here by the banks in order to elicit some information upon his resolution, but I would suppose that Mr. Irvine is striking at some fundamental questions in reference to finance and bank credits, and he would not look for concrete results immediately—at least during consideration of this Bill. It is my idea, that he is seeking to elicit facts and information which he hopes will ultimately influence Parliament, and the public, concerning our system of banking and finance. I am sure, Mr. Irvine, that we shall give you every latitude possible, but as Mr. Hanson says, we must make some progress. This is a very extensive Bill, and Parliament will run into July or August unless we get at it quickly.

Sir HENRY DRAYTON: What is your suggestion?

The CHAIRMAN: My suggestion is that we take up the non-contentious clauses. I was going to suggest for adoption a further regulation like this: Important amendments introduced in Committee by members may be received as Notices of Motion to be discussed and not voted upon until a subsequent meeting of the Committee.

I think it will be necessary for a member proposing any amendment to put his suggested amendment in the form of a motion. It will then appear upon our order paper from day to day until disposed of. There are many important clauses in the Bill which we all know to be contentious, such as the sections referable to Section 88, the "Lien Section", and others. There are a number of clauses however in the Bill which are obviously non-contentious, and we can dispose of those, leaving open for consideration later the contentious clauses.

Mr. W. F. MACLEAN: Then the discussion will be on the special clauses when they come up in the general discussion?

The CHAIRMAN: Yes.

Mr. W. F. MACLEAN: The general discussions of this kind on the points Mr. Irvine has raised. As far as he is concerned. I think the real issue is, if he has a new system of credit to bring forward, it would almost require another Bill. For instance, I have a Bill here which was just passed in the American Senate and by Congress, dealing with that question of credit, and it creates a new bank which probably ought to be his method of achieving what he has in view. If we could get rid of some of these questions by a general discussion it would facilitate the discussion of the details. That is what I have in mind. Anyway, I think inasmuch as the French version is not distributed, and as we are going to adjourn next week Wednesday and will likely not meet until after we have returned from the holiday, we ought to certainly meet that week, and on that first day settle the policy of the Committee after the members have had a chance to read the Act, and Mr. Irvine—is he here to-day?

The CHAIRMAN: Yes, he is beside you.

Mr. W. F. MACLEAN: He should then bring forward his scheme, if he has a particular scheme connected with banking. I do not think it will take us long on the details, and especially we will get through with the unopposed clauses of the Bill.

The CHAIRMAN: Mr. Irvine, did I interpret your mind fairly well?

Mr. IRVINE: Fairly well, Mr. Chairman, but I was going to point out that while possibly true that my chief aim in asking for this investigation was educational, yet I do not think it would be perhaps wise to conclude a priori that there would not be changes made in the fundamentals. I am not unsophisticated enough to hope that we will change the whole system of banking at this Parliament, but at the same time I think it would be well if there was the possibility held out in our inquiry. If I am questioning bankers when they know perfectly well there is no change to be made, it will render our efforts futile. I would like to have them believe there is a possibility of something being done.

Sir HENRY DRAYTON: Mr. Chairman, let us see where we are. In the first instance, the House has the right to discuss matters of principle on the second reading of the Bill. We could have had speeches, and we would have had speeches from all different angles. It would probably have taken days for discussion in the House. The House agreed that the rule should be suspended, and the Bill should be read a second time. Now, I had something to do with that. I thought that was the right thing to do, and I thought so because the understanding was, I think, just as important to my good friend the Finance Minister as it is to myself. I thought it would be much better to have the whole matter discussed where we have the opportunity of having witnesses, getting the bank representations, and knowing where we are instead of having a lot of addresses which would have to be made very much at large in the House,—

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The CHAIRMAN: Sir Henry, I agree with that, but we don't want addresses in the Committee upon matters which are not contentious. Then, when we reach the other stage—

Sir HENRY DRAYTON: I do not know that anyone of us can at the moment arrogate to themselves the position of telling honourable gentlemen that they do not know what they are talking about, or the subjects of their addresses are not worthy the attention of this Committee, nor do I think we can try that. I think the proper way to approach this matter is after a full discussion. It may be things cannot be helped; it may be we have the best system in the world, and a lot of us think so. So far as I am concerned, I think we have the best system as compared with any other system but just simply because we happen to be of that view I do not think we have struck the ultimate peak of banking. It may be there is something else which ought to be considered. Now my viewpoint is that any gentleman who has anything he desires to bring before this Committee ought to be given an opportunity by way of a general discussion. At the same time, I quite appreciate your standpoint. We have to get some progress here. There is no doubt about that, and we have got a big Bill just handed to us, we have an adjournment of the House immediately facing us, and what I would suggest is this: I do not know if it will meet at all with the approval of the Committee—that the Chairman of the Committee should appoint a sub-committee for the purpose of carefully going over this Act and reporting the clauses which they believe to be entirely non-contentious and report their reasons why they think they are non-contentious, and allowing on that report a general discussion of the whole issue if any gentleman wants to make it. I really believe we will make better progress that way.

The CHAIRMAN: Sir Henry, why would that be better than the whole Committee?

Sir HENRY DRAYTON: Can you ask any gentleman fairly to-day, or on Monday, to decide on that?

The CHAIRMAN: I was going to suggest we take up the Bill clause by clause, and just the moment any member says he would like a discussion of any particular clause, that clause would stand over.

Sir HENRY DRAYTON: The members are not in a position to do that to-day. What is your suggestion to how it be done? Could it be done on Monday or Tuesday, or cannot we get far more progress if we were to have a sub-committee go through this and make a report which would really be an informative report to the Committee as to the more technical sections—

The CHAIRMAN: In other words, you ask a sub-committee to suggest to all the members of the Committee that they forego consideration of a great portion of the Bill.

Sir HENRY DRAYTON: No, I do not. I do not say that for one minute. All I say is this, and I will talk for myself and tell you what I think myself about it—all I say is this: there are some members of this Committee that ought to be able to sit down and fairly ascertain just what is merely formal, which are the sections on which no question of principle could turn at all, absolutely essential sections to the carrying on of the banking business, and I think that you will find that with that done, you will make progress, and make it very quickly. I may be wrong. That is only a suggestion.

Mr. W. F. MACLEAN: Mr. Chairman, if I may break in once more—

The CHAIRMAN: Certainly, Mr. Maclean.

Mr. MACLEAN: May I bring this before the Committee? If we have a short general discussion we will then know on what items we wish information from the Bankers' Association or those who are going to attend before this

Committee, and in that way we will clear a lot of ground, and after that general discussion the members can decide on what information is required from the various bankers' associations, and we could hasten the proceedings. Yes, I believe what you say is quite true: that we ought to get rid of the non-contentious clauses if they can be discounted at the earliest stages, as you suggest, and then go in ready to discuss any contentious clauses at some stage of the proceedings, the general outline of the Bill and the chief objections to the Bill. If the members decide that any clauses of the Bill need to be specially discussed.

The CHAIRMAN: Our discussion just reveals one point at issue. That is, whether we will discuss the principles of the bill before we take up the consideration of the clauses. What is the view of the Committee on that.

Mr. RYCKMAN: Mr. Chairman, let me make a suggestion. I think it is consistent with your own view in compliance with the objections raised by Mr. Casgrain we cannot proceed to-day, nor can—

The CHAIRMAN: We cannot proceed at all until after the Easter holidays.

Mr. RYCKMAN: Before this French version is available let us take this Act, and when the French version is available at the next meeting of the Committee let all members then have read the bill. I have not seen it until this morning. I am quite satisfied that there are clauses of this Act, from my very short scanning of it, which will be non-contentious, whether we have a new bank or not, and I think if the members of the Committee come to the next meeting having read the Act they can decide, as you have suggested, that there are certainly clauses which are not contentious. At the same time you have also suggested that if at any time it is found that the clauses which have been passed upon as not contentious are possibly contentious ones, it can be declared so by any member of the Committee, and a discussion can follow on that clause.

The CHAIRMAN: We must have a motion to that effect.

Mr. RYCKMAN: My suggestion is the members should know more about the Act, at the next meeting, after reading it.

Sir HENRY DRAYTON: Cannot you indicate it now, Mr. Chairman, and let us see what you consider non-contentious, and we can consider them during the adjournment.

The CHAIRMAN: That would be difficult. I know the present Bank Act, but I have not looked through this bill at all.

Sir HENRY DRAYTON: If you are not in a position to do that, how helpless it will be for us.

The CHAIRMAN: I am satisfied that every member of this Committee realizes that there are contentious and non-contentious clauses. If any member states that in his judgment a certain clause is contentious it will be put into that category so nobody will be denied an opportunity for ample discussion.

Mr. IRVINE: I agree with your stand, and that will leave us free to question any clause that we might think necessary to investigate, but have you any particular indications to make in line with Sir Henry Drayton's suggestions?

The CHAIRMAN: About a special committee? It does not matter what my views are. I object to a special committee passing on what are contentious and non-contentious clauses. We can do that ourselves here.

Mr. W. F. MACLEAN: Let us leave it for the next meeting then and come back with some tangible suggestions.

The CHAIRMAN: I cannot agree with Sir Henry; we cannot make progress that way. At least, I hope he will not press his suggestion to-day.

Sir HENRY DRAYTON: I am not pressing it at all. I only aim to save the time of the Committee, so the time during the Easter holidays would not be wasted. If in the meantime you get the judgment of a large number of members of your Committee, I think it will help you.

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Mr. HUGHES: I think the suggestion made by Sir Henry is correct. I think greater weight would be attached by members of the Committee to a report from a sub-committee than a report from the Chairman, and perhaps this would expedite the business.

The CHAIRMAN: The Chairman does not propose making a report.

Mr. HUGHES: The suggestion is made that the Chairman go over the bill and point out what in his opinion are non-contentious clauses. Sir Henry suggests that a sub-committee do that, and I think the findings of a sub-committee would appeal to a greater number of the members.

The CHAIRMAN: Mr. Hughes, do you mean to say that it would be preferable to have a sub-committee define what are the contentious clauses—

Mr. HUGHES: Not finally, but let the sub-committee take up the subject with the Chairman of the Committee.

The CHAIRMAN: No, the Chairman would not care to do that.

Mr. HUGHES: Somebody will have to do it.

Mr. W. F. MACLEAN: I do not think the Chairman should assume that responsibility.

Mr. RYCKMAN: Had we better not all read the Act first so we will know what we are doing?

The CHAIRMAN: I think Mr. Ryckman's interpretation of the sense of the Committee is a proper one. We have not read the bill, and cannot make much progress to-day. Then the French version of the bill is not available, and it will not be available till after the Easter holidays, so we might as well adjourn now until after Easter.

Mr. W. F. MACLEAN: What about witnesses?

The CHAIRMAN: At the last revision of the Bank Act a sub-committee was appointed to suggest the witnesses who might be asked to appear before the Committee. I think it is advisable to appoint a committee to-day.

Mr. W. F. MACLEAN: I think we should have one day's general discussion, see what we want witnesses on. There is no good in sending for all the bankers in the country.

The CHAIRMAN: We would not ask all the witnesses to be here on the same day. They would be summoned by the general committee. I have had many requests myself from persons asking to be heard. It is an important matter to determine who shall appear before the Committee. I think it would be well to have a sub-committee which would report to this Committee, but we need not necessarily adopt their views. Is it the view of the Committee that we appoint a sub-committee for that purpose?

Mr. W. F. MACLEAN: Will you name it at the next meeting?

The CHAIRMAN: No, we should name it now.

Mr. CARMICHAEL: The suggestion has been made that there should be a general discussion on the bill and also because we cannot go ahead until after the Easter recess, why not have a meeting of the Committee between now and Easter to take up the general discussion of the bill.

Mr. CASGRAIN: It will not be possible to have the French version till after Easter. It is a question of principle, because some of us are not able to understand the bill until it is printed in the French language.

Mr. CARMICHAEL: Then we cannot do anything until after Easter?

Mr. W. F. MACLEAN: Then we cannot even appoint a committee to-day.

The CHAIRMAN: I am assuming that nobody would object—

Sir HENRY DRAYTON: Do we gain anything by appointing a committee to-day? I wonder if Mr. Irvine cannot have his witnesses after Easter?

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The CHAIRMAN: Mr. Irvine has spoken to me, and he is uncertain. He cannot control the movements of his witnesses.

Mr. IRVINE: I can have some witnesses here on the first day after the Easter holidays.

Mr. W. F. MACLEAN: That is the general principles we are going to discuss, and if Mr. Irvine is ready, why we could go into that early next week.

The CHAIRMAN: Mr. Casgrain, do you object to a sub-committee being appointed to consider the witnesses, as to whom shall be called as witnesses?

Mr. CASGRAIN: In what particular instance do you refer, Mr. Chariman, to the discussing of the bill. The point raised by Mr. Irvine?

The CHAIRMAN: Any point.

Mr. CASGRAIN: The reason I made the objection is not because I wish to prevent the Committee from making progress, but in the Province of Quebec we have certain members, and certain persons interested in the Bank Act who could read the Bank Act in English, and understand it, but in certain instances we would be better able to understand it if it was in our own language. If the bill would be in French only I would not take it upon myself to ask for any discussion, unless I had it translated into the English language. In the Province of Quebec, in the local House, where there are only three or four English members, the practice is not to proceed with any bill before the House, or even introduce it, unless it is printed in French and English.

The Hon. Mr. FIELDING: That is a rule in our House, too.

Mr. CASGRAIN: We did not object to it the other day, at the first and second reading, in order to expedite matters, but I think we should have the privilege of having the bill translated into the French language, before being asked to discuss it here.

Mr. SPENCER: Have the bank associations been asked to send witnesses here?

The CHAIRMAN: It has been the practice to do that. They will be here, yes.

Mr. COOTE: I would like to ask Mr. Fielding whether he has indicated all the changes that are of any account in the Bank Account, when he made his speech in the House the other day. If he did, it would make it much easier to go through the Act.

The Hon. Mr. FIELDING: I think I have indicated those which are of chief importance. I have two here which I have indicated to the honourable members, but my honourable friend will notice also those I have indicated, form the bulk of them, and I think it will be helpful if my honourable friend will bear that in mind in reading the bill, some of the things which I do not regard as very important may be regarded by others as very important, but I think in the main the changes I made cover the changes in the bill.

Mr. HANSON: You were asking for an expression of opinion on the advisability of appointing a sub-committee to consider what witnesses should be summoned. I agree with the proposal because I think it would be more expeditious to do that than to have it gone into by the general committee. At the same time, the suggestion has been thrown out and received with a good deal of approval that some discussion be had on the principles of the bill. Is it possible to have a sub-committee determine before that general discussion takes place just what witnesses should be summoned? It seems to me that we should adopt Mr. Reickman's suggestion and study the bill first and if possible to pass the non-contentious features of it if the Committee so determines. And then we can determine when we shall have the general discussion. After that has taken place, it seems to me we would be in a better position to determine what witnesses we require, having regard to the contentious sections of the bill and the issues raised by the general discussion. That would be my idea.

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The CHAIRMAN: We could tell very well, Mr. Hanson, what are the contentious clauses.

Mr. HANSON: Yes, then we could go over the non-contentious ones, first.

The CHAIRMAN: Let us take the sense of the Committee. Does the Committee feel that at our first meeting there should be a general discussion on the principles of the Bill?

Mr. W. F. MACLEAN: I will move that, and I would not ask more than one day for that. It perhaps may take a little longer, of course but that will be up to the Committee, and one or two days for a general discussion would clear away a lot of things, I feel, and would facilitate the Bill going through.

The Hon. Mr. FIELDING: In answer to the question put to me a moment ago, I might say that Section 113 has some rather important provisions regarding the form of return. I merely want to indicate that number to the honourable gentlemen who are studying the matter.

The CHAIRMAN: It has been suggested that at our first meeting we discuss the principles involved in the Bank Act.

Mr. IRVINE: May I ask, Mr. Chairman, if that would preclude my witnesses? I think, that would be involved in this discussion.

The CHAIRMAN: We would not necessarily drag you into that, unless you wished.

The Hon. Mr. FIELDING: Has the Committee summoned any witnesses?

The CHAIRMAN: No.

Mr. W. F. MACLEAN: After we hear that we could decide what we want.

Sir HENRY DRAYTON: Do you think we could do anything to-day? I am quite content to leave the thing open with the Chairman of the Committee. I do not think we can do anything. Do you see where we are. We met the other day and determined to let Mr. Irvine have the right of way, and have the right to call his witnesses. That, of course, means he has the right to produce his case and make his arguments on the general principle involved. What is the use of discussing anything if the Committee have determined—if he goes on. I admit, that because we gave him that right of way, if he does not go on, he cannot block progress, but he says he will be ready after the Easter holidays. If he is ready, and calls his witnesses, and we hear them, he has every right to say anything he wants to say for the purpose of advancing his case. I do not think we can really do anything or say anything to-day.

The CHAIRMAN: I do not propose we shall, Sir Henry. I was trying to get the sense of the Committee whether at the first meeting we would have a general discussion of the Bank Act that is within the Committee.

Sir HENRY DRAYTON: If Mr. Irvine is ready at the first meeting he is to have the right of way.

Mr. IRVINE: I will be ready at the first meeting. What I was asking was will this preclude my witnesses on that occasion, if we have a general discussion. It is my opinion that their statements will furnish a basis for your general discussion, and that is why I was asking if I might be allowed to call the witnesses first.

Mr. W. F. MACLEAN: Without a general discussion?

Mr. IRVINE: It will lay the foundation for a general discussion.

The CHAIRMAN: When does the House resume, Mr. Fielding?

The Hon. Mr. FIELDING: I think it is the 9th, they spoke of.

Mr. SPENCER: I move that Mr. Irvine's witnesses be heard at the first meeting of the Committee.

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Mr. W. F. MACLEAN: I made a motion before that we have the next meeting for general discussion of the Bank Act, to sort of straighten out the things for subsequent proceedings.

Sir HENRY DRAYTON: I made a motion some time ago that we should adjourn, Mr. Chairman.

The CHAIRMAN: I was hoping that we would have something done this morning.

Mr. CARMICHAEL: I would like to see the general discussion first. I think we should do that first, and that would clear the atmosphere, and we could receive information from Mr. Irvine's witnesses at possibly the second meeting following Easter.

The CHAIRMAN: I will put that suggestion as a motion and disregard the resolution of Mr. Irvine altogether, because one is not dependent upon the other. The suggestion is that at our first meeting after Easter we proceed to a general discussion of the principles involved in Bill 83. That is the motion, gentlemen. Those in favour of the motion will please hold up their hands.

Mr. COOTE: Can I say a word first. I think we are, in a sense, putting the cart before the horse, that is, provided Mr. Irvine will be ready.

The CHAIRMAN: That is not the point; the motion is that we have a general discussion of the Bill, and leave Mr. Irvine's resolution out of it for the moment.

Mr. COOTE: Very well, but I think we will lose time by carrying this proposed motion, because we will want to have this discussion all over again, probably, after Mr. Irvine's witnesses have been heard, and I think it would expedite matters and surely that is what we are looking for, provided Mr. Irvine is ready with his witnesses, to go ahead and as soon as we have heard his witnesses we will then, surely, have to have some discussion, and I think the two things can be and will be discussed at the time. So, I think we will be expediting matters by taking Mr. Irvine's witnesses first, and having the discussion afterwards, provided Mr. Irvine's witnesses are here.

Mr. IRVINE: My witnesses will be here anyway, Mr. Chairman.

The CHAIRMAN: I do not see how we can dispose of the two things at the same time. Mr. Irvine is after something which in some respects is quite apart from the Bank Act. The Bank Act is a practical matter, and Mr. Irvine's resolution, of course, involves the banking system to a great extent. I understand Mr. Maclean thinks that if we go through some of the main clauses of this Bill, perhaps at that meeting, we will determine what are contentious and what are not contentious, and so on. Now, gentlemen, those who are in favour of the suggestion that at our next meeting we discuss generally the clauses of the Bill, please signify in the usual manner.

Mr. HUGHES: Mr. Ryckman is voting against his own suggestion.

Mr. RYCKMAN: I am not.

The CHAIRMAN: The motion carries, gentlemen. Just one other matter.

Mr. MACLEAN: Is it the intention of the Committee to meet during the sessions of the House, or not?

The CHAIRMAN: Yes, that has been settled, we shall have to sit during the sittings of the House.

Mr. COOTE: Mr. Chairman, what was the result of that vote?

The CHAIRMAN: I presume that this proposed discussion merely means that we will spend one whole day discussing the general principles of the Bill, something in lieu of a discussion in the House, on the second reading.

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Mr. HANSON: I would not want to limit the range of the discussion, but a man ought not to be able to come here and speak for an hour or more.

The CHAIRMAN: I should think five minutes would be enough.

Mr. W. F. MACLEAN: I think any man, in five or ten minutes could state his views.

Mr. SPENCER: I take it that, if, after having a general discussion for an hour or more, that Mr. Irvine's witnesses (one of whom will be here), if the Committee sees fit to ask him to take the platform for a short time, it will be in order. That is entirely in the hands of the Committee?

The CHAIRMAN: I think we will have to determine that at the moment. Mr. Irvine, have you any witnesses ready to appear to call.

Mr. IRVINE: Yes, they will be here.

The CHAIRMAN: Whom will they be?

Mr. IRVINE: Mr. Bevington, from Edmonton, and Mr. Ross, if necessary, but Mr. Bevington will be enough for one or two days.

The CHAIRMAN: They are two of the witnesses mentioned in the report of the sub-committee for last week. Has anyone any suggestions as to when we will call these two witnesses here; are you willing to leave it to Mr. Irvine and myself?

Mr. COOTE: I would like you to give a ruling on that question, as to whether we have any right to challenge the decision of the Chairman on a vote. I think we negatived the resolution, and you declared it carried.

The CHAIRMAN: What was that?

Mr. COOTE: That at our next meeting we should have a general discussion. I think it was defeated, and I tried to get your attention.

The CHAIRMAN: I did not count the vote myself, I am relying upon the clerk of the Committee.

Mr. COOTE: It is not very important, but I think it is a matter of principle that when an objection is taken there should be a way of making sure whether a motion is carried.

The CHAIRMAN: I thought it was carried. It was either a tie or it was 11 for and 10 against. We will put the motion again, rather than have any dispute about it.

Mr. RYCKMAN: I would like to say a word, because it has been said that I voted without knowing what I was doing. I opposed this motion for a general discussion on these grounds; we will meet, and one whole day will be taken in a general discussion. When my friend Mr. Maclean says he thinks a member ought to get through in five or ten minutes, I will say now that he will not get through in that time. We will spend the whole day, and then it will all be gone over again. It will be something like the Immigration Act. There is not one point of argument that has been raised in the debate that has lasted for the last four or five days in the House of Commons on the question of immigration which has not been brought out at least five times. We are going to have the same sort of thing here. We have here the text of any subject any man may wish to discuss in reference to this Act, and these points will come up, and must be discussed and settled. Before that comes at all, you will have one day lost because it will be all re-hashed again.

Mr. SPEAKMAN: I voted against the motion on some of the grounds mentioned and some others. I must dissent from the views of the Chairman that Mr. Irvine's resolution is not in line with the Bank Act. In our views of the Bank Act, the discussion which will take place on the items of the Bank Act

may be largely influenced by the evidence which we will receive from the witnesses. To my mind, they are involved very much. I think we should proceed something like this; as suggested, we should first discuss that resolution, find out what we can get from it, hear the witnesses, determine for ourselves what bearing that evidence has on the Bank Act, and then have our discussion. That is the reason I dissented, because I think we should have the evidence and see what effect it has.

The CHAIRMAN: Mr. Irvine does not even ask that.

Mr. SPEAKMAN: I do not understand the attitude of Mr. Irvine, but that is certainly my attitude; I want to discuss the Bank Act in the light of the evidence we receive, and this discussion should follow, because we cannot say now that the resolution itself is purely academic, that the evidence we are to receive from the witnesses will have no bearing at all. It seems to me that destroys the effect of the resolution altogether, and I would like to see us adhere to our original programme of discussing the matters perhaps, which must be taken into consideration, and after that have the general discussion.

The CHAIRMAN: It was not decided that we were going to dispose of Mr. Irvine's resolution before taking up the Bank Act. We can carry them both together; if we do not, we will be here until the wheat is gathered in the Prairie provinces next autumn. Mr. Irvine will get every consideration that he desires. His witnesses are not ready, he has not been able to get into communication with two of his most important witnesses; he does not know when they may be here. It would not be fair to rule them out because they are not ready now, or immediately after Easter.

Mr. IRVINE: My most important witness will be here for the 21st of April, that is the last one. I do not expect you to hold up the Bank Act for that witness, but at the same time, I think Mr. Speakman's point is well taken, with regard to the other witnesses. Seeing that you are intending to have a general discussion, it would be well, I think, to hear these witnesses first, and have them followed by the best banking representatives that you can produce, and that will be a basis for our general discussion.

Mr. MITCHELL: Your original suggestion, Mr. Chairman, was that we should deal with the non-contentious clauses, first dispose of them, and then hear the evidence.

The CHAIRMAN: That is the idea.

Mr. MITCHELL: Exactly, we can come back and discuss it as we go along. As we meet our difficulties we will discuss them as we go along. Mr. Maclean wanted a general discussion first, which we have not had in the House, it is true, but I do not see how we are going to discuss very intelligently the whole question without having heard the evidence, and it seems to me that your original suggestion that we should dispose of the non-contentious clauses and then hear such evidence as we want to and then discuss as we go along will be the practical and the most expedient way of proceeding.

The CHAIRMAN: The motion is that the next following meeting of this Committee be devoted to a general discussion of the Bank Act. There is some doubt as to the previous vote. All who are in favour of that motion please hold up their right hand.

The motion was negatived by 12 to 9.

The CHAIRMAN: The motion is lost.

Mr. HANSON: Where are we now?

The CHAIRMAN: Do not be discouraged, gentlemen. Mr. Irvine says he will be ready with two witnesses at the first meeting of the Committee after

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Easter; Mr. Bevington and Mr. Ross. Is it the wish of the Committee that these two gentlemen be heard at the next meeting? Mr. Bevington is from Alberta and Mr. H. S. Ross is from Montreal.

Some hon. MEMBERS: Carried.

Mr. HANSON: About when will that be?

The CHAIRMAN: It will be the second day after the House re-convenes. Gentlemen, will you please keep in mind the motion that I suggested to you this morning; I will read it over so that it will be before you in the meanwhile.

"1. Non-contentious sections may be first disposed of. Any clause to which there is objection stands on the request of a member for future consideration. Reconsideration shall be permissible on notice of motion."

I think that is a very good motion. I wish you would keep it in mind. Then the other thing is this, gentlemen, that if anybody has any proposals by way of amendments to the Bank Act, they must be by way of notice of motion. That motion goes on our Order Paper, and it will stand there until disposed of, and gradually we will get on with the work.

Sir HENRY DRAYTON: I think we might adopt those two motions now.

Mr. HANSON: That would not apply to mere verbal suggestions?

The CHAIRMAN: No. I do not want to put them to-day unless the Committee agrees. Gentlemen, you have heard the first one.

Some hon. MEMBERS: Carried.

Mr. MACLEAN: Mr. Irvine has not given a Notice of Motion of what he proposes.

The CHAIRMAN: We are all going to look after Mr. Irvine. He is going to have every opportunity to discuss his resolution.

Mr. CARMICHAEL: Do you mean that an amendment to any section may be proposed at any time, or when we come to that section in the discussion?

The CHAIRMAN: Yes, or before. I think it is preferable that if any member has a suggestion by way of amending any section of the Bank Act, he should at the beginning of our meetings in the mornings—we will make it a rule—make the motion and it will appear on our Order Paper the next day and remain there until disposed of.

There is a legal gentleman connected with this Committee, Mr. Fraser, who will be glad to assist any members of the Committee in drafting these suggested amendments. It is desirable, of course, that they be in the best form possible, so Mr. Fraser is attached to the Committee, and you will find him in Room 440. He will be glad to meet any members of the Committee at any time.

Motion No. 2 is:

"2. Important amendments introduced in Committee by members may be received as Notices of Motion to be discussed and not voted upon until subsequent meeting of committee. Members of the Committee shall be furnished with copies of such amendments."

Some hon. MEMBERS: Carried.

The CHAIRMAN: We should decide on what days we shall meet to consider the Bank Act. I think perhaps that we can decide that better at a later date.

Sir HENRY DRAYTON: Yes.

Mr. W. F. MACLEAN: I think we should almost meet from day to day to get it through.

The CHAIRMAN: Now, gentlemen, I wonder if I can get you to change your minds about the appointment of a Committee to recommend what witnesses shall be called.

Sir HENRY DRAYTON: There is already a Committee appointed for calling witnesses.

Mr. HANSON: Only on Mr. Irvine's resolution.

The CHAIRMAN: No doubt the members of the Committee will desire to hear some of the leading bankers of Canada. We cannot very well ask them to come on short notice, and I think it would be well to have in mind who we are going to ask.

Mr. IRVINE: May I make a suggestion here; I understood that you thought the bankers that would be called before the Committee to give evidence would be considered as part of my investigation to some extent, and therefore I am very much interested in getting some of these men here.

The CHAIRMAN: All the witnesses that are called, you will be interested in.

Mr. W. F. MACLEAN: Can you very well call these witnesses until you know the questions you are going to ask them?

The CHAIRMAN: You were on the Banking Committee of 1912. You know what happened then. The bankers appeared before the Committee and made a general statement, and that was followed by questions by the members of the Committee.

Mr. MITCHELL: I understand your suggestion is to appoint a committee to consider and suggest to this Committee who should be called?

The CHAIRMAN: Yes.

Mr. W. F. MACLEAN: Do we want to do that today?

The CHAIRMAN: I would like to do it.

Mr. HANSON: I would move that.

Sir HENRY DRAYTON: Have you any suggestions?

The CHAIRMAN: Yes.

Hon. Mr. FIELDING: I suppose that means that witnesses can only be called by order of this subcommittee with the approval of this Committee. Perhaps the Committee may not think some witness is important, and anyone of us may say, "I want John Smith" and then someone may be brought one thousand miles at a large expense. He should be a necessary and material witness for the Committee. With that idea in mind, I think the suggestion is an excellent one.

The CHAIRMAN: I happened to be on the subcommittee in 1912. We brought in our report but it was not approved by the committee, because we suggested too many witnesses. I was going to suggest as committee, Mr. Mitchell (who is deputy chairman of the Committee), Sir Henry Drayton, Mr. Casgrain, Mr. Irvine and Mr. Speakman. That is five. Is that acceptable gentlemen?

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Gentlemen, I do not think there is anything further. I asked the Deputy Minister of Finance to prepare some statements which I thought the Committee would require, and I thought having it ahead of time would be an advantage. The first was a statement showing, in the case of each chartered bank, the capital authorized, the capital subscribed, and the capital paid up, and the amount of reserve fund as of January, 1923. Does the Committee want that information?

Some Hon. MEMBERS: Carried.

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Sir HENRY DRAYTON: There is one other thing that should be put in, if you are going to get the figures, and that is in connection with the rest, the proportion of that rest that has been subscribed or bonuses, premiums—

The CHAIRMAN: I am just about to give that. I have a statement showing how the reserve balances of chartered banks were acquired.

Some Hon. MEMBERS: Carried.

Mr. W. F. MACLEAN: Can we have a list of the mergers of the banks?

The CHAIRMAN: Yes.

Sir HENRY DRAYTON: Supposing we have a list of all the mergers?

The CHAIRMAN: I think it would be well to have the last return of all the chartered banks printed, so it will be available in our proceedings.

Some Hon. MEMBERS: Carried.

The CHAIRMAN: Gentlemen, I think that is all.

Hon. Mr. FIELDING: I move we adjourn.

The Committee adjourned.

EVIDENCE

WEDNESDAY, April 11th, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Will the Committee please come to order. The two matters of business on the Order paper are

- (1) Further consideration of resolution *re* basis of credit;
- (2) Bill No. 83, respecting Banks and Banking.

I think the understanding is that we deal with No. 1 to-day, but of course, with the understanding that concurrently we can refer to No. 2, if it is thought desirable on the part of any persons speaking upon the first order, to refer to the second.

Mr. W. F. MACLEAN: It bears on the main issue.

The CHAIRMAN: Keeping in mind the fact that this Committee decided that, in so far as possible, the matter of rural credits was to be left to the Special Agricultural Committee.

Mr. W. F. MACLEAN: What is the connection between this Committee ascertaining what they are doing in the Agriculture Committee and this apparently joint committee. Are they publishing a report of their proceedings as we are?

The CHAIRMAN: Yes. The first business on the order paper every day is motions, to enable members to propose amendments to the Bank Act. I presume there are none to-day. We are to hear Mr. George Bevington, as a witness, called at the request of Mr. Irvine, to-day.

An Hon. MEMBER: Before proceeding with the witness, I do not think some of the members have it quite clear, with reference to the procedure. As I understand it, with reference to motions, to any amendments to the Bank Act, other than those proposed by the Government, would those not logically come when the Bank Act came up for consideration?

The CHAIRMAN: For this reason we wish to have them on the order paper and printed so that they can be seen by all members of the Committee prior to the time of dealing with them. I want to make this clear, that if any gentleman has any amendments to propose to the Bank Act, he will have an opportunity at every meeting of the Committee to make a motion embodying that amendment, so that it will appear upon our order paper from day to day as a notice of motion until disposed of. Further he may have the assistance of the law clerk in the preparation of the same, who will be in attendance here.

Mr. IRVINE: May I ask if in the course of moving such an amendment it would have to be presented in precise language?

The CHAIRMAN: As near as possible, but there is a law clerk attached to the Committee to assist members in drafting their amendments. Let us now get to business. I shall now call on Mr. Bevington to make his statement, upon Mr. Irvine's resolution. I would suggest the better procedure would be to allow Mr. Bevington to make his statement first, then he may be examined by any members of the Committee. I would suggest that we give Mr. Irvine the right of way in examining the witness after the conclusion of his statement. I think we shall make better progress by allowing the gentleman to make his statement.

Mr. GEORGE BEVINGTON, called and examined.

The CHAIRMAN: Mr. Bevington, as announced at our last meeting, is a farmer, residing in the Province of Alberta, and who has given considerable study to the subject which is immediately before us.

WITNESS: Mr. Chairman and gentlemen, I do not know just how to proceed. This is the first time that I have ever appeared in this capacity, as making a statement to a body such as this, in this manner. I was under the impression that statements would be made under oath. If I am mistaken in that, I would like to be corrected.

The CHAIRMAN: Just a moment. Are you prepared to swear to everything you are going to say? I would rather you would make your statement.

The WITNESS: I do not understand the rules governing such bodies, therefore if I make mistakes or transgress, I hope you will forgive me and put me right. The nature and scope of this inquiry is as wide as human activities, that is as laid down by the resolution that I have been requested to make this statement under. The resolution, I think, asks for the examination to take place as to the basis, the function and the control of credit. I have been requested to make a statement under those headings. The scope of the inquiry then being so wide that it will be impossible to cover that scope in detail, in preparing my statement I have undertaken to prepare it under five divisions of the subject, as you will find, when the copies of a printed form here are distributed. Before proceeding to the statement as printed, I hope I might be permitted to take up a few minutes of your time in viewing the subject generally before confining it to this statement. I would like to compare the nation as the base of credit with the human body, the circulating medium as the blood of the body, the heart as the distributing agency, as compared to our present banking system. We find in the same body, the whole of the body, that the heart is the centre of the body, propelling the blood to carry the necessary nourishment to all parts of the body to meet the requirements of the body. Now, in dealing with the national body as the circulating medium, my contention is that the nation is the base of the whole. The heart of the nation is the executive head of the nation, or the supreme governing body. The circulating medium necessary for the exchange of all commodities required for the nourishment and sustenance of the nation, might be considered as the blood of the body. The brain directing the control of the whole might be referred to as the executive of the nation. Now the need of the

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inquiry is probably well known to every one here and does not require very much time on my part in stating what the needs are. We find that something has gone wrong somewhere in this national body or the body politic; and we find that the heart is full of blood, that is, our warehouses and storehouses all over the nation are full of goods, the things necessary to the sustenance of the nation, and yet we find parts of the nation unnourished or in some cases in very desperate circumstances, that would indicate that there is something wrong with the circulation. The national life blood is a blood to propel, in order to convey to all of the units of the nation or all parts of the political body, the nourishment required for healthy development. To endeavour to solve this problem, that we find a nation filled with goods, so much goods that they do not know how to market those goods, yet with a home consumption ill supplied, is the great problem of not only Canada but all the nations of the world to-day. If we locate that cause as a medium of exchange or of money system, then we have gone a long way towards solving the problem. If it cannot be found there, we must find some other place to look for it. In taking up this paper I have thought it wise to start under the heading "What is the Basis of Credit," by asking that question, and then answering it, as you will read on the paper.

(1)

"What is the Basis of Credit?"

The basis of a nation's credit is the number, intelligence and industry of its people, plus the capital equipment and natural resources within its boundaries."

Mr. Chairman, if it is the will of the Committee, I would like to run through this statement as printed, and then go back to part one and commence to consider them clause by clause. May I consider that to be in order?

The CHAIRMAN: Yes.

WITNESS:

(1)

"What is the Basis of Credit?"

"The basis of a nation's credit is the number, intelligence and industry of its people, plus the capital equipment and natural resources within its boundaries.

(a) "All credit instruments circulating and functioning as money, or in lieu of money, for the production and distribution of wealth, must depend ultimately upon this basis for their redemption, whether functioning within or without the boundaries of the country issuing them.

(b) "Bonds, whether federal, provincial, municipal or individual, rest in the final analysis on this basis; and depend for their redemption upon the production and delivery of real wealth, or the transfer of title and right of possession of the real assets upon which they are based.

(c) "Treasury bills, Dominion notes, etc., are the nation's promise to pay, and, therefore, are dependent upon this basis for their redemption.

(2)

"What is the Function of Credit?"

"The function of credit is to establish and maintain production and distribution at its highest degree of efficiency for the promotion of human well-being.

[Mr. George Bevington.]

"It is, therefore, desirable—

(a) "That all producing units in the nation should have access to the use of credit at any and all times as their assets shall warrant; and

(b) "That interest rates should be kept as low as possible consistent with the cost of service.

"(3)

"How Credit Should Be Controlled"

"Since credit is based on the human and natural resources of a nation, its control must be vested in the supreme governing body, which body may properly delegate its functions to kindred authorities. In all countries where government is carried on through representative assemblies the responsibility of controlling credit must rest indirectly with the representatives.

(a) "It follows, therefore, that institutions should be formed to issue credit instruments or money for circulation. The determining factor in the use of these instruments should be the assets or real credit possessed by the person or persons desiring to use them.

(b) "To grant the privilege of issue and control to private institutions such as banks is to deprive all other people of the use of credit, except at the discretion of the banks.

(c) "This privilege would not however cover the right of issue of bonds, but negative the use of bonds directly or indirectly as a means of exchange; except in so far as banks or kindred institutions are ready or willing to purchase such bonds.

"(4)

"Is Our Existing Banking System Meeting, or Able to Meet, the Credit Requirements of the Country?"

No; because:—

(a) "Our banking system has been developed along lines calculated to meet the requirements of merchants and dealers rather than along lines necessary to meet the requirements of production and consumption.

(b) "The right of issue of credit instruments (Bank notes) granted to banks is ordinarily limited to the narrow base of their capital assets. They are, therefore, unable to meet the requirements of a continually expanding business without correspondingly increasing their capital or running the risk of having too small a proportion of their resources in liquid form.

"(5)

What Steps May be Taken to Remedy the Existing Defects or Inadequacies of Our System so That Production and Distribution May be Carried on to Its Highest Efficiency for the Furtherance of Human Well-Being?

"The establishment of an elastic Federal Loan Department with Provincial Government agencies to deal, via local organizations, directly with the people; this department functioning as a holder of securities against which advances of Dominion notes have been made."

Now, to come back to the first division of the subject: "What is the Basis of Credit," I have prepared here a couple of charts which I would like to exhibit

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to you. This chart (Exhibit No. 5, page 90) is calculated to show what our position was in 1913. This square (in the middle of the base line) is representative of the gold we had at that time, \$115,000,000. This square (immediately above) represents the note issue of both the Dominion and Bank Notes. This square (indicating on chart) represents the deposits and loans. This is another form of money which I will explain in a short time. This represents Dominion, Provincial and Municipal debts, as far as the records could be secured from the Department of Statistics in the year 1913. That does not include any of the various other debts that would apply at that time; which we were liable to meet; only the Dominion, Provincial and Municipal is represented in that total. This then, is the development of our credit system, as based upon a gold base, this small base. In the year 1914 we found it necessary to add to this base. We were expected to believe, and most of the people did believe that, in establishing our currency and credit system on a gold base, that we had provided ourselves with a credit system or a monetary system that was the best that we could devise, fully believing that the gold base was a guarantee of the nation's credit, even at a time of great strain. That was the reason for adopting a gold standard, that we would have a national currency that would see us through a time of stress. When the war strain came on, and even before the war strain, just slightly before, it was realized by our bankers, not only in Canada but in other parts of the world, that the gold base was not capable of standing that strain, and consequently acts of Parliament were passed, commencing with orders-in-council supplementing this base and this public credit by the War Finance Act, which was placed under this credit structure, as you will see shown by those side blocks in red on the chart. This will represent the War Finance Act necessary in placing the public credit underneath this structure, which was liable to collapse. This represents deposits, \$1,012,000,000. Those figures (indicating on chart) represent loans to banks. I am dealing now strictly with bank loans and deposits. The loans were \$1,111,000,000 a little greater than the total deposits. The amount of notes, both bank and Dominion notes, in circulation against this gold base was \$134,000,000, represented here, or not much greater than the gold base. Now deposits are subject to withdrawal on demand or on notice. Loans that are made from these deposits are usually short time, but they are time loans. They are loaned against assets that in very many cases are not such assets that may be readily realized on. The result of that situation was that when the war conditions came on, the people, as a usual thing, in such times, began to want to withdraw their deposits and withdraw them in gold and take them away and put them in safe keeping where they would be available for them in case of something disastrous happening. That being the fact, it was necessary that some provision be made by the Government in order to prevent this gold base being drawn out from in under this whole credit structure, and practically allow it to collapse. You can readily see that where there was only \$115,000,000 of available gold of all descriptions in Canada, that the depositors could not withdraw \$1,112,000,000 from \$115,000,000, so that this measure was absolutely necessary in order that this structure would stand up and continue to function. This meant that paper money circulating against this base was also liable—at least the people held that, if it were in circulation, were permitted under the law, as it stood at that time, and under the Bank Act, as it stood at that time, to ask the redemption of that paper in gold, putting on a little further strain. If they asked for this money, it would have meant taking away the base on which it rested, leaving the depositors without anything to draw on. That condition prevailed in all the leading countries of the world, so as a result, public credit was brought to the rescue in 1914 to all the leading

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countries of the world, almost immediately upon the declaration of war. Gold from that time on ceased to function as the national currency in Canada, and has ceased to be the basis for the redemption of paper money in Canada by the War Finance Act, which we will deal with a little later. Dominion, Provincial and Municipal debts are represented by bond issues that are in circulation. A Dominion bond, that is, a Federal bond, is exactly the same kind of an instrument as a Dominion note, inasfar as what it rests on. It is the credit of the nation, issued in the form of a bond. For its redemption, everything that exists in Canada is liable; not only this small amount of gold, but everything that exists is the base of our bond issue, and the bond is redeemable in that. Provincial bonds are like a second mortgage upon that portion of the territory composing a part of the Dominion. Municipal bonds likewise are like a third mortgage upon that basic asset. The individual mortgages are a fourth mortgage upon that asset. All other claims become other mortgages in that ratio. Then the credit of the nation must be, I think, considered the base upon which all circulating or credit instruments ultimately rest and must be redeemed in. We have some statements here from some of our leading bankers and noted public men in Canada that are very interesting in connection with that subject. Take the statement of Sir Edmund Walker, issued in this booklet, in his address to the directors of his bank in 1914, his annual address. We find this statement in regard to this order-in-council at the time of the Great War Finance Act, "that for the first time in the history of Canada, banks were empowered to pay their debts in their own notes. When those notes reached the clearing house, however, they were redeemed in Government legal tender or in gold. The notes were not, as many people supposed made a legal tender as between individuals and the main object of this arrangement was to prevent people from securing actual gold coin in order to hoard it, a process which would have been ruinous to the nation as a whole.

"The banks would have been able under the Bank Act to issue the usual emergency circulation for crop moving in September, and this was set back to August.

"The Government raised somewhat the limit for that part of its legal tender issues which is not entirely based on gold.

"The Government undertook to make loans to banks on approved security in order to aid them in carrying on the business of the country."

Now, for the moment, we want to examine what bank notes and Dominion notes are and how they are based, in order to know just how this legislation worked out.

A bank note is a credit instrument based upon the general assets of the banks and redeemable in that only. There is no deposit of gold anywhere required by the Bank Act as redemption for bank notes. The bank note then depends for its redemption at the present time on Dominion notes. Dominion notes depend for their redemption on the asset of the nation. To whatever extent gold composes a part of that asset, then they are redeemable in gold, and only to that extent. Dominion notes are based on the whole asset of Canada. When this condition arose bank notes were not legal tender; a bank could not pay the demands of the depositors in bank notes. The banks knew that they were not in a position to meet the requirements of their depositors with gold or Dominion notes, and consequently something must be done, and this War Finance Act was framed. As stated by Sir Edmund here, banks were then privileged under that Act to issue their own notes in sufficient quantities to pay all their debts. In turn, the War Finance Act was amended so that Dominion notes may be issued contrary to the Act as previously existing, and these Dominion notes were loaned to the banks against the deposit of securities.

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Now, let us try to visualize just what happened in that case. The bank required Dominion notes. The bank was in the possession of the securities purchased with their own notes or their depositors credit. They were in the possession of the securities. These securities were taken to the Treasury Board. They were deposited in exchange for Dominion notes; Dominion notes then went out into circulation and did the work of the country. Public credit, functioning as legal tender, the only legal tender we had, the notes were not, as many people—these notes that the banks were permitted to issue were not legal tender between individuals. They were only legal tender insofar as the banks could pay their debts with them. The people who had claims against the bank must accept payment in bank notes. The bank note then passed through the channels of trade, and performed all the functions of money, and when it came to the clearing house they were taken up and Dominion notes issued in their stead. Legal tender notes were issued in their stead. The possession of these legal tenders in the banks was secured by the deposit of securities. The securities were the securities held by the individual borrowers of the bank, the bank holding the instruments, such as securities called for, as against the War Loan.

The Government up to this time had been printing Dominion notes on a basis of 25 per cent of gold, up to \$50,000,000. Above \$50,000,000 issue one hundred per cent was required in gold, under the Act. This limit was raised, or at least as Sir Edmund puts it, the Government raised somewhat the limit for that part of its legal tender issues, which is not entirely based on gold, so that there was no base in gold for this further issue of Dominion notes that went into circulation, except that general base, the asset of the whole of the Dominion.

I do not know that I will proceed with that just for the moment, any further. I have some answers here to questions asked of the Finance Minister, through different members of the House that I would like to take up just now in connection with this. We find in Hansard, page 1234 Debates, 1921, questions asked by Mr. Thompson (Qu'Appelle), who was then a member of the Assembly. These questions and answers are given. They are somewhat interesting in this connection:—

“What is the amount of Dominion Government notes issued for circulation?”

The answer is, by Sir Henry Drayton “February 28th, 1921, \$290,194,519.22” the amount of Dominion notes in circulation at that time.

“What portion if any of this amount has been circulated by the Government, and how?”

“\$10,000,000 under order in council confirmed by Chapter of 4-5 George V.”

“What amount, if any, has been loaned or advanced against approved securities to individuals or corporations other than banks, to whom and what terms and conditions.”

“\$10,000,000 to Canadian Northern Railway Company and \$16,000,000 to Grand Trunk Railway Company, both confirmed in Chapter of 4-5 George V.”

I have these chapters here. If they are required I can produce them.

This accounts for the circulation then of \$26,000,000 of Dominion notes. Keep this in mind, that Dominion notes are the credit of the people of Canada. They are our own notes.

By Mr. W. F. Maclean:

Q. Do you include legal tenders in that?—A. Yes, it is all legal tenders.

Q. The bank legals. I want to know if it includes that?—A. Yes.

[Mr. George Bevington.]

By Sir Henry Drayton:

Q. Did you not say \$10,000,000 and \$16,000,000? Did you say \$20,000,000 and \$16,000,000?—A. There is \$10,000,000 under order-in-council confirmed by Chapter of 4-5 George V.

Q. That is Grand Trunk?—A. The amounts, \$10,000,000 to Canadian Northern Railway and \$16,000,000 to Grand Trunk, making \$26,000,000 all told. These notes evidently were circulated, I think by the Government, loaned out direct to corporations or paid out for the meeting of Government expenses, maturing of bills or whatever they were, as described by the chapters referred to, by the Act. These then did not go out into circulation by the deposit of securities by the banks as provided under the Finance Act. These went to institutions, \$10,000,000 to the Canadian Northern Railway and \$16,000,000 to the Grand Trunk Railway. I do not know what arrangements were made about that when the Government took over these railways, but it would appear that this has been simply credited to the Government as payment on the railways. They held securities on the railways given to the Treasury Board, and I presume they must have been applied simply as payment on the railways when they were taken over. The point in connection with this that I wish to bring out is that the Government by that Act used public credit directly in carrying on the business of the country, which to my mind was a quite proper thing for them to do. They used it directly. They did not put it through the process that they usually go, private institutions and banks and thence out to do its business. There was direct control of public credit used in that way for the benefit of the public. The next question, No 4. "What is the total amount of Dominion Government notes supplied to Canadian banks, under what terms and conditions as to security and rates of interest".

"\$87,115,075. Of this amount, \$56,457,000 was advanced against the securities of Imperial Treasury Bill certificates at $3\frac{1}{2}$ per cent; the balance being advanced against Dominion of Canada Treasury Bills, Dominion of Canada War Loan bonds, Provincial and Municipal securities, grain receipts, and other approved securities at 5 per cent."

\$56,000,000 against the security of the Imperial Treasury Bill certificates at $3\frac{1}{2}$ per cent. We would notice here that our Dominion can issue public security in the form of Dominion notes, to the extent of \$56,000,000, and loan it against securities of another country at $3\frac{1}{2}$ per cent. That is another issue of public credit used for the Government's credit, which the public was using in the interest of the nation of Canada as well as in that of the interest of the Empire. I just want to point out that we had used our credit in that way. The balance of the item of \$87,000,000 against Dominion of Canada Treasury Bills, Dominion of Canada War Loan Bonds, the Treasury Bill Note Bonds, that was deposited back with the Government in exchange for those bills were the credit of the people of Canada, circulating in that form. They had been purchased by the banks; and these were returned back to the Treasury at an interest rate of 5 per cent to the Treasury. If there was any difference then in the interest rate which these bonds bore, they would still be the property of the bank. The bank had got in exchange for the Dominion Bonds and Treasury Bills the equivalent in Dominion Notes, with which they might go on and do the business of the country. Again we find the Dominion Note, based on the public credit, performing the necessary work of the Dominion. That is supplying the need of the circulating medium, that the body politic might be fed with the production that it circulated. We find also Municipal securities, grain and other securities, approved by the Treasury Board, the property of the banks, presumably pur-

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chased with bank notes, taken to the Government and exchanged for Dominion notes, so that the bank was not performing any service, only that of a banker.

By the Chairman:

Q. The Municipal securities were not taken back by the Government, they were given as collateral?—A. They were taken to the Treasury Board.

By Sir Henry Drayton:

Q. They were pledged by the bank and a certain advance made against them?—A. If the bond was worth 100 per cent and the Treasury Bill worth 100 per cent, then there is no real good reason why 100 per cent should not be given to the bank against it, because the bond and the Treasury Bill were based on exactly the very same thing as the Dominion Note.

By the Chairman:

Q. Except that the value of the securities were very uncertain in those days?—A. The value of the Dominion Note was also very indefinite.

By Mr. Hanson:

Q. Not all of it?—A. The gold payment was suspended.

By Sir Henry Drayton:

Q. The real difference was, one was a long term claim and the other was a discount?—A. That is the real difference. The further part of this answer would clear that up.

"All securities are taken at the present market value less a margin determined by the Treasury Board having in view the nature of the securities deposited."

"In addition, \$50,000,000 has been advanced to the Imperial Government against the deposit of securities approved by the Treasury Board."

This was for the purpose of supplying a purchasing power to the Imperial Government, with which they would pay for the products that we were supplying them for war purposes.

Q. You mean the Imperial Government?—A. Yes. I made a mistake there.

Q. You said the Dominion Government?—A. Yes.

Q. You are stating what rate of interest was paid on this loan. That is not of particular importance, what the rate of interest was.—A. The point was, this was a national credit, being used in this way. This had nothing whatever to do with the gold base at all. It was simply national credit issue, loaned to the Imperial Government, which in turn became a purchasing power for the products we were delivering to England at that time. In other words, we the people of Canada supplied the Imperial Government with our goods. This transaction was simply the means by which we acquired the goods and sent them over there. The goods then, when they arrived there would have satisfied all the requirements of the loan. Why then should there be interest still to be paid as against those goods? We supplied the goods, and we supplied the credit, the means of transferring them, and so on. Why should a bond issue have gone into existence bearing interest? If the interest is paid, if the return of that \$50,000,000 is made to Canada with interest, what will it be returned in? Will it be returned in gold with the interest also returned in gold, or will it be returned in goods with the interest also in goods? If nations undertake to pay the obligations and the interest upon those obligations, and pay in gold, then the interest alone would exceed the total gold supply of the world in one year, without paying the principal. Now we may leave that point for the moment.

[Mr. George Bevington.]

By an Hon. Member:

Q. Will you tell the Committee how a Dominion note is redeemed outside of Canada?—A. If a Dominion note left Canada and got into some people's hands outside of Canada, it would represent exactly the same amount as it does in the hands of a person in Canada. It is the promise of the Dominion to pay. It is not paid therefore by the Dominion to the holder of the note, whatever the note calls for. If it is on the other side of the line, in the United States, we are required to redeem it. We have promised to redeem it on demand, and if we do not have a sufficient amount of gold to redeem it in gold, we must try to redeem it with something else, either with a Bond issue, or with the sending of our products in redemption of it at the market price. I do not wish to take up any time on this point, but if tariff walls are raised against produce travelling to another country to any extent—we will say 20 per cent—it would mean that if we were redeeming our note from those people on the other side of the line, and redeeming it in goods, we must send \$1.20 worth of goods to redeem \$1.00 worth of those notes.

By the Chairman:

Q. What is that last statement, Mr. Bevington?—A. We require to redeem our notes with our goods.

Q. What do you mean by our notes? Our notes do not circulate outside of Canada?—A. The question was how would we redeem them outside Canada.

Q. As a matter of fact our notes do not circulate outside of Canada to any extent?—A. The means by which we clear in the clearing house is either with gold or bond issues or with trade.

Q. We pay our foreign indebtedness in goods, we may and do pay in bonds or in gold, but it is fractional.—A. Yes.

Sir HENRY DRAYTON: It would not be a fraction if paid in bonds.

By the Chairman:

Q. In the case of Canada, it would be quite substantial, but bonds are property or goods. They represent an interest in property?—A. There is this difference between bonds and goods, if the goods were delivered instead of the bonds, the debt would be paid.

Q. The one is security and the other is a transaction?—A. Yes, a further promise to pay.

The CHAIRMAN: I do not see that there is any difference between that and wheat, or real estate.

Sir HENRY DRAYTON: The one is liquid and the other is not.

WITNESS: Question 5 is:

"Have Dominion Government notes been accepted in lieu of gold for deposit in the Central Gold Reserve? If so, to what amount?"
and the answer is

"Yes—under Subsection 4, Section 61 of the Bank Act, amount deposited February 21, 1921, \$76,900,000."—That is Dominion notes deposited in the Central Gold Reserve in lieu of gold. I may state just here that the balance of the amount deposited in the Central Gold Reserve is \$11,502,000 of gold.

By Mr. F. W. Maclean:

Q. Was not there an issue of bank notes against that to take its place?—A. Yes. All of this amount deposited as Dominion notes in the Central Gold Reserve may be re-issued by the banks depositing it, in bank notes.

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Q. As a matter of fact were?—A. Yes. I would not say that they were circulated, but they were there available for circulation in the banks.

Q. That was the purpose of the deposit?—A. Exactly.

SIR HENRY DRAYTON: They had 5 per cent on the notes.

WITNESS: Issued against the deposit in the Central Gold Reserve? No, not against the deposit in the Central Gold Reserve.

SIR HENRY DRAYTON: You have to pay on the interest you get from the Government?

WITNESS: That would be the case unless the Government had paid interest on the bonds held by the banks, in Dominion notes. There are \$26,000,000. that have got out, that was uncovered by deposits of securities with the Government. Returned to the banks as interest on any kind of securities held by them, they could deposit them with the Treasury Board without having to deposit their securities, and issue just the same.

By Hon. Mr. Fielding:

Q. You are trying to show how much business is done on credit rather than in gold?—A. Establishing the base of credit.

Q. You mean that there is a gold base, but not enough gold? Your whole argument is to show how large a proportion of business is done upon credit?—A. Yes.

By Mr. Maclean:

Q. Was the gold basis extinguished during the war?—A. Yes, by not being made available for use. It was still there, and was a part of the assets of the nation upon which this issue of credit was made.

By the Chairman:

Q. What part of the country's business do you estimate is carried on by the issuance of cheques? Do you put it at the top of the pyramid?—A. It is shown here on this chart (indicating), this is the cheque circulation.

Question 7.

"What other amounts of gold are held by the Dominion Government, and for what purpose?"

The answer is:

"On February 28, 1921, the total gold held by the Dominion Government was \$103,022,079.99 of which \$3,872,550.35 was held as a reserve of 10 per cent on Dominion Government Savings Bank deposits and the balance as security for Dominion Notes Circulation."

We find then that the Dominion Notes, amounting to \$290,000,000. in circulation were secured by \$103,000,000 of gold in the Gold Reserve, or a trifle better than 30 per cent of the amount of Dominion Notes in circulation were covered by gold.

SIR HENRY DRAYTON: I think it was 36 per cent at that time, if my recollection is correct.

WITNESS: The figure here given as \$290,000,000 of Dominion Notes in circulation is not as high as the Dominion Notes Circulation was at its peak. Yet the Gold Reserve had dwindled a little from that peak. It was about \$10,502,000 when the Dominion issue reached its peak, so it was slightly less at its peak than 30 per cent.

[Mr. George Bevington.]

Question 8.

"What other amounts of gold were there in the hands of banks, trust companies, etc. on December 31, 1920?"

Answer—

"Current gold and subsidiary coin held by Canadian Chartered Banks December 31, 1920, in Canada and elsewhere was \$82,678,599. No record of gold held by trust companies." The fact of the matter is that they probably did not have any, but we do not know whether that is the case. The point in connection with this question and answer is this: This amount of gold whatever it might be, may have been in Canada or may not have been in Canada. The answer is—

"Current gold and subsidiary coin held by Canadian Chartered Banks."

including silver, copper and all other coins—

"held by Canadian Chartered Banks, December 31, 1920, in Canada and elsewhere"—

By Mr. W. F. Maclean:

Q. What do you mean by elsewhere?—A. That is the answer given by the Finance Minister, I cannot tell you; he probably can.

By Hon. Mr. Fielding:

Q. What date was that?—A. December 31, 1920.

Hon. Mr. FIELDING: Not guilty.

WITNESS: Question No. 9.

"What is the total amount of bank notes authorized to be issued under subsection 3, Section 61, or amendments thereto of the Bank Act?

Answer:—

"January 31, 1921—\$218,162,696. Under subsection 14 of Section 61 of the Bank Act, which provides for the additional issue of currency during the season of moving the crops, an additional amount of \$39,270,563 could be issued as of January 31, making a grand total of \$257,433,259."

That is Dominion Notes that should have been in circulation at that time. That is the amount of Bank Notes that were in circulation as against \$82,000,000 of gold, silver and copper held by the Banks in Canada and elsewhere as redemption money for that Bank Note issue.

Question 10.

"What was the average amount of Bank Notes in circulation during the first, second, third and fourth quarters of the year 1920?"

Answer:—

"First quarter, \$221,946,442; second \$225,832,673; third quarter, \$230,000,994; fourth quarter, \$237,421,406."

Or an increase in a year of practically \$16,000,000. It may be of interest to look over those figures, not only for the year 1920, but also for 1921 and 1922, which I have, to show in what way the currency was inflated or deflated during the year according to the requirements of business or may be according to the wishes of the people who were in control, the bankers themselves.

[Mr. George Bevington.]

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By Mr. Hanson:

Q. Is it your argument that this scheme has not worked out well?—A. Well, I would rather that the people here would judge of that for themselves. I am trying to bring before you the facts as I can find them. Now in regard to the security held or taken by the Government in lieu of Dominion Notes, I have here a copy of the Bank Notes Act under which a definition of Dominion Notes is made.

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AN ACT RESPECTING DOMINION NOTES
Security

Chapter 4

Clause 5th

The Minister of Finance shall always hold as security for the redemption of Dominion notes up to and including fifty million dollars, issued and outstanding at any one time, an amount equal to not less than twenty-five per centum of the amount of such notes in gold.

2. As security for the redemption of Dominion notes issued in excess of fifty million dollars, the Minister shall hold an amount in gold equal to such excess.”

Under the War Measures Act, that part of the Notes Issue Act was violated and made legal tender by Act of Parliament.

The Hon. Mr. FIELDING: It was not violated if it was authorized by law?—A. There was a time when I think an Order-in-Council passed which was not endorsed until some time later.

Hon. Mr. FIELDING: But it was confirmed later.

Sir HENRY DRAYTON: It was done under the War Measures Act. It was legal alright.

WITNESS: Clause 6, of the Act, respecting Dominion notes, reads:—

“In case the amount held in accordance with the provisions of this Act as security for the redemption of Dominion notes is not sufficient to pay the Dominion notes presented for redemption, or in case the amount so held is reduced below the amount required by this Act to be held, the Governor-in-Council may raise, by way of loan, temporary or otherwise, upon form of security and upon such terms and conditions as the Governor-in-Council may approve, such sums of money as are necessary to pay such notes or to provide the amount required to be held as security for the redemption of Dominion Notes issued and outstanding.”

Now just in connection with that particular part of the Act, I would like to ask a question. I think it is quite a proper question for any member of Parliament or for any citizen of this country to ask, and it is this: If the Government buy gold with the Dominion note or Dominion bond, or any other kind of credit instrument, what is the position of Canada after the transaction has taken place? We have changed our promise to pay for an asset. We have increased our asset and also increased our liability. Our position, to my mind, is just this much different, we have incurred a liability that is interest bearing, and we have secured an asset that is non-productive.

By Mr. W. F. Maclean:

Q. Who gets that interest that has to be paid?—A. Whoever holds the bond.

Q. It is with the bank?—A. It may be with any person who holds the bond.

[Mr. George Bevington.]

An Hon. Member:

Q. Do we not turn over this gold to our creditors?

Hon. Mr. FIELDING: In that case we hold the gold against the circulation.

WITNESS: If we take Greenshields Review, of which I have a copy, it states that since last September, up to the end of the year, our gold reserve, the gold in Canada, was increased \$62,000,000, and \$38,000,000 of that was added to the Central Gold Reserve. I think \$24,000,000 were held by the banks, and so on. I would like to ask this further question: With what was this gold paid for? In what did we pay for that additional gold? We could not under average conditions, and I presume that the average gold production in Canada for the last year was about the same as the ten years previous, we cannot have added but a very small amount to that gold reserve from the production of gold in Canada. We must have secured it in some other way, and having secured it in some other way it would be interesting to know whether our national asset was equal to the difference between our production of gold and the amount we now have.

I have another list of questions here that were asked by Mr. Garland in 1922 of the Finance Minister, and there are some answers here also that are very interesting. I would like to quote some of them.

By Sir Henry Drayton:

Q. What are you reading from?—A. From Hansard, June 19, 1922, questions by Mr. Garland and answer by the Finance Minister. Referring to the \$10,000,000 loan to the Canadian National Railways and to the \$6,000,000 loan to the Grand Trunk, Mr. Garland asked:

“What security was taken for the \$10,000,000. loaned or advanced to the Canadian National Railway Company and for the payment advanced to the Grand Trunk Railway (loans confirmed by Chapters 4 and 5, George V)?

“1. Does the Government receive interest on both of these loans?

“2. If so, on what dates was such interest paid, and in what amounts?

“Hon. Mr. FIELDING: \$12,500,000. Canadian Northern Railway Company 4 per cent debenture stock, due September 1, 1934; £1,543,200 Grand Trunk Pacific Railway Company 4 per cent sterling bonds due January 1, 1962.

“1. No.

“2. In 1915-16 Canadian Northern Railway Company paid \$516,-301.39 being interest to November 1, 1915.

In 1915-16 Grand Trunk Pacific Railway Company paid \$311,643.84, being interest to November 1, 1915.”

Apparently the Government loaned that \$16,000,000 without interest.

By Mr. W. F. Maclean:

Q. To whom?

Sir HENRY DRAYTON: I do not think it was without interest. We have not been able to make the railways pay.

Hon. Mr. FIELDING: We have the promise to pay.

Sir HENRY DRAYTON: I am afraid it is not cashable.

WITNESS: In fact then, so far as those loans are concerned, and all other loans made against securities, if inability to pay interest was confessed, we will say by Britain, to whom we have loaned \$50,000,000, interest would not be forthcoming, and as a result we would be entitled to do with Britain the same as we have done with the Grand Trunk—take over the asset upon which the security rested. Is that a valid conclusion to arrive at?

[Mr. George Bevington.]

APPENDIX No. 2

THE CHAIRMAN: If you can enforce it.

WITNESS: That, I take it, is the reason why we take securities when payment is in default, that we may realize on the asset.

MR. W. F. MACLEAN: In other words, the asset was the circulating medium.

SIR HENRY DRAYTON: The asset was the railway property.

MR. W. F. MACLEAN: It was the basis of credit in some shape or other.

WITNESS: In my statement of what is the basis of credit, I think I made the statement which I wish to use in support of my contention, that bonds whether Federal, Provincial, or Municipal rest in the final analysis on this basis of national credit, and depend for their redemption upon the production and delivery of real wealth, whether that real wealth is gold or any other form of labour product. So in default of receiving payment of those notes transferred to people who retain possession of the real assets on which those bonds are based, we took possession of the Canadian National Railway and the Grand Trunk, and therefore we simply had purchased, when we made the loan, \$16,000,000 worth of interest in that road; and we did it by the issue of Dominion notes direct in payment. Now then, if that principle is a valid one upon which to do business, it is just as valid that we pursue the security that we hold for the \$50,000,000 advanced to the Imperial Government.

SIR HENRY DRAYTON: Except that they are paying.

WITNESS: If default happened—

SIR HENRY DRAYTON: They are paying right along.

HON. MR. FIELDING: The point in that case would be that British credit bills are rather better than the Canadian Northern.

WITNESS: I am arguing from the standpoint of what is the basis of security.

HON. MR. FIELDING: It is all a credit business.

THE CHAIRMAN: If a farmer purchased an animal from another farmer, and does not pay for it, I suppose the vendor farmer could go and take it back.

WITNESS: It is quite apparent then, that interest upon this transaction does not make the security any more valuable. It might make it more valuable as a base of commercial paper, but it does not make it any more valuable from the standpoint of the security. That is the point that I wish to make. The basis upon which the security rests is the real security. Interest bearing, in the instrument representing the base that is in the bond or guarantee does not make the instrument any more valuable from the standpoint of security, but as a base of commercial paper I will admit it is of more value. Here is the Act respecting certain issues of Dominion notes. We have dealt with the \$10,000,000 of Dominion notes issued to the C.N.R., and the \$6,000,000 issued to the Grand Trunk, so I will not read that part. But there is another item of \$10,000,000 included in this Act to which I would like to call your attention for a moment.

“And whereas pursuant to an order in council of date the second day of November, 1914 (P.C. 2750), Dominion notes to the amount of ten million dollars (\$10,000,000) were issued, in order that certain obligations of Canada might be met as they matured;

“And whereas with respect to the greater part of these issues of Dominion notes security in the form required by section 5 of The Dominion Notes Act, 1914, was not held;

“And whereas it is expedient that such issues, and the making of such advances and the taking of security therefore, and the agreements with regard to repayment of such advances be severally confirmed:

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Therefore His Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

"1. The issues of Dominion notes and the advances made in pursuance of the orders in council cited in the preamble, and all things done under the provisions of the said orders in council, are hereby confirmed and shall be deemed to have been duly authorized.

"2. The agreements referred to in the preamble are hereby declared to be and shall be deemed to have been valid agreements and binding on the respective railway companies parties thereto."

Here are some details in regard to this \$10,000,000. not covered by actual securities. They are given by the Deputy Minister of Finance in reply to a question by Mr. Spencer:—

"The advance of \$10,000,000 referred to was made to the Receiver General of Canada. Treasury Bills to the amount of £1,700,000"—

The mark here is £, but I do not know whether that is a mistake for dollars—

"were maturing on November 19, 1914. There was not sufficient money available to meet these bills, and it was not considered advisable under the existing conditions to make a new issue of Treasury Bills or other securities on the London market."

The above noted advance was made to meet this and other maturing obligations of the Government.

"The advance was made against the security of gold then held against Dominion note circulation."

The notes were issued against the gold. They were put into circulation to meet the requirements of the Government, to meet maturing bills, and so on—a direct use of the public credit again for the defraying of the expense incurred by the Government.

Now gentlemen, I think that the evidence produced under this heading should be sufficient to prove contention number 1 on your printed sheet, that the base of credit ultimately is the nation itself, and all that there is in that nation of value, whether that be human beings, inherited property produced by previous generations, labour applied to land, or whether it means the natural resources undeveloped in the country.

By Mr. W. F. Maclean:

Q. Including the assets of the banks?—A. Including in that the assets of the banks. That is my contention. That is the whole base of credit.

I want to just deal with how we put this basic money into circulation and the manner in which we do it with the bank. A bank is privileged by the same authority that issues Dominion notes, that is, the Government, to print bank notes against their assets. They are redeemable in nothing but the bank's assets. When your Dominion, Provincial or Municipal Government or any other subdivision of Government finds that it is necessary to use their credit of the bond issue, they must sell these bonds to some institution that will buy; usually banks, or a financial corporation, which is in fact doing that sort of business. If they have been placed to their credit in a bank, then the proceeds of these bond sales is withdrawable in bank notes. Bank notes are again redeemable in Dominion notes. If the Government has placed a bond then in a bank and has got a credit in the ledger of the bank, permitting it to draw on that bank, the Government would draw bank notes and put them into circulation, to meet with

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their requirements. The bank note is based on a small portion of the national asset. The Dominion bond that is given in lieu of it to the bank is based upon the whole of the national asset, including the asset of the bank. The bank note being given for a bond, becomes interest bearing, to the bank, because the bond is interest bearing. The Government or the people of the country then have exchanged a real credit, which is the redemption, for bank credit, have exchanged it for bank credit, which is based on a part of that whole asset that the bond is issued on, and are giving to that financial institution an interest for the privilege of using their own credit.

By Mr. W. F. Maclean:

Q. The lesser for the greater?—A. Paying for the privilege of using what is already their own. You have first authorized the bank to issue notes.

By the Chairman:

Q. With a limit?—A. Yes. But they are issued just the same. They did not need necessarily to buy those securities with bank notes, because they have large deposits of people's credits with which they may also buy them. If they use the people's credits to buy them, they are using a small section of the people's deposits as payment for a Dominion bond, which in turn, includes all of the asset and all of the credit of the common people, so that it is only a manner of switching credits around, manipulating them.

Now, I want to point out before leaving this that the Government issues bonds based upon the whole asset of the country and then exchanges them for a credit instrument based upon a part of the assets of the country, and pays interest for the privilege of doing so, giving a security greater in exchange for a lesser security. In other words, if you will permit the expression, "considering the hen is lesser than the egg."

Q. They are getting gold theoretically, are they not?—A. Theoretically.

Q. You are not basing your argument, are you, Mr. Bevington, on the fact that at the present moment paper currency is not favourable, are you?—A. I am just trying to deal as closely as I can with the subject of what is the base of credit and how we handle those credits based on that.

Q. There is a difference between a bond and gold, if you wanted to make an international payment?—A. In case you did not have the gold.

Q. Assuming we have passed the time when we are not on a gold basis and the banks' obligations are payable in gold, would not there be a difference between a bond and a promise to pay? Is not there a difference?—A. Yes, there is a difference, because if you have signed the nation's promise to pay in gold, which the obligation is signed in the bond to pay in gold and you have not got the gold, the only one instrument in which that bond is payable, the only one product in which it is payable, and you have not got that, then you must be prepared to hold the obligation on the terms of the person who has extended you credits.

By Mr. Irvine:

Q. The fact that the banks are permitted to issue notes does not improve the value of our gold?—A. No.

Q. Nor does it improve the value of our bond?—A. No.

By Rt. Hon. Mr. Fielding:

Q. But the banks are not permitted to issue those notes except upon a limit?—A. Under the War Finance Act, and I believe it is still in force, they may issue their notes to the amount necessary to meet their obligations.

[Mr. George Bevington.]

Q. Without limit?—A. Without limit, only limited to this extent, that they must place with the Treasury Board securities sufficient to redeem their bank notes with Dominion notes.

By the Chairman:

Q. There is property behind every note?—A. Yes.

By Mr. W. F. Maclean:

Q. In other words the resources of the country are behind it?—A. In other words the credit of the country upon which both of these instruments is based is always called upon finally to redeem and settle them. That is the point.

By an Hon. Member:

Q. It is your opinion that the credit of the country is illimitable?—A. It is only limited by the number of its population, the intelligence and industry of that population, and the natural resources upon which they have to spend their labour.

By the Chairman:

Q. It is limited to the products of the country, past or present, or in the immediate future?—A. Its paying ability is limited to production, but it has a further asset than that, in the undeveloped natural resources.

By Mr. Mitchell:

Q. And what the creditor pays?—A. Yes.

By Mr. Baxter:

Q. Do you include in the basis of credit the potential labour in the community as a whole?—A. Oh, yes.

Q. And the value that potential labour can produce in wealth. It is a fact if the gold or iron remains in the earth it is valueless until human labour has done something with it. Would you tell me if you include potential labour as a part of the basis of credit? You can enforce the rendering of that labour, if you have passed an obligation upon it. Under our present or twentieth century method of production which is now carried on by a very minute division of labour, it is necessarily a credit instrument, by offering to exchange commodities, among different labourers in different occupations or producers. The necessity to live then requires production of the commodities and the interest to exchange commodities requires the use of credit instruments. A. Necessity then should be one of the principal factors in the volume of circulating credit, his private asset or his right of possession to a certain plant, a certain piece of land, or something of that kind, should be the limiting factor in the amount of public credit that he should be entitled to use. If that is the limiting or regulating governing factor in the amount of credit that he should be entitled to use, then as he will increase his asset, he is entitled to a greater use of public credit, so long as a margin of safety exists sufficient to guarantee to the other section of society that their credit will not be used wrongfully. That person should be entitled to an extension of credit.

Q. Assuming that a man has the right to a piece of ground, and in that ground there is known to be iron ore, and he expresses his intention of taking out that iron ore and converting it into certain articles, is it your theory that this becomes an actual basis of credit?—A. No, I would not say that.

Q. When does it become an actual basis of credit?—A. It is a basis of credit if the Government, who should be the controlling body in this matter of credit, in the interest of the nation, thinks it is necessary to develop that bit of property.

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Q. Then a corollary to that is that the Government must have power to make a man, unwilling to work, actually work, and by no other means can you sustain the basis?—A. No, I would not say that.

By Mr. Irvine:

Q. Would not the Government find it difficult to make men work, to dig for gold as they would for raising wheat?—A. Very.

Q. It is just the same problem.

Mr. LADNER: I am going to make a suggestion, that the very able structure which the witness has erected to develop his argument should not be interfered with, but that he should be allowed to follow that without questions being put to him.

The CHAIRMAN: We all believe in that. We are all trying to do it.

Mr. MACLEAN: And we are helping sometimes when we ask a question.

Mr. LADNER: It is getting a little confusing at the present moment.

Right Hon. Mr. FIELDING: Mr. Bevington does not seem to be confused. He is looking out for No. 1.

Mr. MALCOLM: Are we to be permitted after the discussion to ask questions on the points brought up?

The CHAIRMAN: Sometime later, but not likely to-day.

The WITNESS: I have another chart which I would like to exhibit this morning. (Exhibit No. 6. page 91.)

The CHAIRMAN: You might perhaps make a small drawing and it might appear in your printed remarks. We could have a reproduction of it with the evidence.

Mr. CALDWELL: Might we ask the Chairman to speak a little louder so we can hear his remarks?

The CHAIRMAN: I was simply remarking to Mr. Bevington that we would reproduce those charts in the reports.

Mr. CALDWELL: I am pleased to hear that, because I thought that was the question you put.

The WITNESS: I would like to draw your attention to this chart for a short time. As you will notice in 1913 we had a gold deposit in the central gold reserve, or of gold held in Canada at that time, \$115,000,000. At present we have gold, \$193,000,000. This amount of gold has been at or below the 1913 level up until September last year. Then it has been raised \$62,000,000 since that time. The volume of credit instruments circulated by banks, the volume of extension of credit was \$1,111,000,000, in round numbers. The amount of bank notes in circulation was \$134,000,000. This is all credit, circulating upon this gold base. Then there was a further amount of \$1,079,000,000 bond issue, by the various divisions of Governments. On this chart, ten years later, is shown what the position is to-day. We have \$193,000,000 of gold. We have a note circulation, both Dominion and Bank notes, \$403,000,000. We have circulating, as credit instruments bank created credit instruments, deposits and loans—we have deposits, \$1,708,000,000 and loans, \$1,709,000,000. Further than that we have other credit instruments in circulation as bond issue, and other recorded interest bearing obligations of industrial concerns, railways, and the like of that, amounting to \$9,250,000,000, or almost an increase of ten times our obligations in ten years. All of this debt has been built up in that length of time. I do not wish to convey the impression to you that I consider the nation is absolutely insolvent or anything of that kind because of that fact. Our national asset is quite equal to that obligation. There is no question about that, but the point

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I wish you to keep in mind is this: that our asset, taking the natural resources of the country, untouched by man, is the same as it was in 1913, and then adding to that the increased volume of man created wealth in the country, and it does not by any means represent an amount equal to the accumulation of debt.

By Sir Henry Drayton:

Q. The increase. You mean the ratio has gone against us, in other words?

—A. Yes. I would like to take a little of your time to deal with this question of banks created credits. We have dealt with how the credit instruments came into existence, how they were authorized to be brought into existence by the banks, and we have dealt with the Dominion notes, and how they came into existence. Now we come to this larger volume of credit instruments functioning as bank created credits. If we would consider for a moment that all banks have to come into existence and open their doors for the doing of business for the first time, if then we could imagine that they came into existence all at the same time, and were all open to do business on the first day, and that there were no deposits, no loans, or anything else, that they were just established as a monetary system for ourselves, if they had in their possession \$193,000,000 worth of gold, and they had the right to issue notes, Dominion notes, against that we will say of four times the amount of gold, because that is about the amount there is to-day—about four times the amount of gold, not just to-day, but up to September—on that basis by loaning out the original amount of note issues with their privilege to issue against their assets, they get in securities what bank notes go into circulation. They are passed from the borrower to some other person in payment of goods. The person to whom they pass may not need to use them. They have had goods as a surplus, and exchanged their surplus goods for the bank notes. Not needing to use the money itself, they walk back to the bank and put it on deposit. Now you have in that transaction created both a deposit and a loan, and the bank is still in possession of the first instrument, its note. Out of this deposit which has come back, the bank may go on and make another loan. The same money would go into circulation, pass through the same channels and finally lodge in the hands of somebody who did not need to keep it in the channels of trade, and they would come back and deposit it in the bank. You have created another loan, and another deposit, both of which are interest bearing to the bank, yet the bank is again in possession of the instrument.

AN HON. MEMBER: No, the bank is paying interest on it.

WITNESS: It is certainly receiving interest on its loan, or else you have found a different kind of bank than I have found. Both of those transactions are interest bearing to the bank. They are both interest drawing to the depositor who put them in, but at a lesser rate. Now that process may go on until we build up this circulation of credit instruments to whatever extent the bankers may feel themselves safe in doing, and we have found that some of our bankers have passed the line of safety.

By an Hon. Member:

Q. Is the first depositor entitled to receive interest on his capital?—A. At any time. That is the trouble with this process. The total amount of deposits created in that way by lending on the original instrument has built itself into loans extended by the banks of one billion seven hundred and nine million dollars (\$1,709,000,000.) The deposits placed with them are \$1,708,000,000, only \$1,000,000 difference between the two items. Now a depositor has the right to demand payment in money on demand, or at notice, and the banker is not always in a position to realize money on those securities held that he has

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taken in exchange for the loan. That is the position that our bankers find themselves in during a period of trade depression, when our surplus products selling in the markets of the world are not equal to our requirements to live. That is, if our income is not equal to our living expenses and the cost of production, we find that the people must withdraw from the banks their previous deposits. The result is that the banks must force liquidation on the borrower. That is the only means by which they can meet the requirements of their depositors.

The CHAIRMAN: May I interrupt you just for a moment? At a previous meeting, a member of the Committee asked that a memorandum be prepared showing the bank mergers that have taken place in Canada from 1867 to date. I have that information, and it will be printed in our proceedings as Exhibit No. 4. I would ask Mr. Mitchell to present the report from the sub-committee regarding the calling of further witnesses.

Mr. MITCHELL: The sub-committee appointed for the purpose of considering the names of the witnesses who should be summoned before your Committee, beg to report that, at a meeting yesterday it was decided to recommend to your Committee that Sir Frederick Williams Taylor, General Manager of the Bank of Montreal and President of the Bankers' Association; Sir Edmund Walker, President of the Canadian Bank of Commerce, Toronto; C. E. Neil, General Manager of the Royal Bank, Montreal; Beaudry Leman, General Manager of the Bank of Hochelaga, Montreal; H. V. Powell, President of Weyburn Bank, Saskatchewan; Professor Swanson, Saskatoon University, and J. P. Kennedy, ex-private banker, Saskatoon, be summoned to appear before the Committee at such times as the Chairman of your Committee in his discretion deems advisable.

And your sub-committee further report that, as other names are suggested to it and considered they will report further to your Committee.

Mr. W. F. MACLEAN: Have you heard from the Bankers' Association, who, I think, would like to be heard?

Mr. MITCHELL: These names have been suggested by different people.

Mr. LADNER: There is Professor McGibbon who, I believe, has made an exhaustive investigation in Alberta, and who would, I think, be a most valuable witness.

Mr. MITCHELL: That name was considered yesterday, and we have reserved our right to consider any of those other suggestions.

Sir HENRY DRAYTON: This is only an interim list.

The CHAIRMAN: The motion is that this report be adopted.

Motion agreed to.

Mr. BAXTER: I would like to make one suggestion in reference to Mr. Bevington's address. I think it was stated that the charts would be reproduced in the record of the evidence. It is really necessary if we are to follow the evidence intelligently. It takes a good deal of time to give the testimony, and it occurred to me to ask whether it would not be well, when the Committee is not sitting, for Mr. Bevington to dictate the remainder of his address so that it could be printed and distributed, and that we could attend the next meeting and have a discussion upon the matter.

Mr. W. F. MACLEAN: No, let us hear the witness. We have the witness here now, and you want to turn him into a document.

The CHAIRMAN: Your suggestion, Mr. Baxter, does not seem to be acceptable to the Committee. There are two other matters to which I would like to

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refer before we adjourn. Some two weeks ago a request was made to me personally to permit the appearance before this Committee of a representative of the Bradford Chamber of Commerce, England; and I took upon myself the responsibility of saying that the Committee would be glad to hear a representative of that body whenever he would come to this country. It is probable that he is in Canada now, and if it is agreeable to the Committee, and it is the desire of this representative of the Bradford Chamber of Commerce to be heard on Friday, I should like to know whether that would be acceptable.

Mr. W. F. MACLEAN: Before we settle that, should we not decide whether we should sit while the House is in session.

The CHAIRMAN: I referred to this matter of hearing a representative of the Bradford Chamber of Commerce because the witness is coming a long way to be heard on Section 88 of the Bank Act, and I think we should go a little out of our way to accommodate him.

Some hon. MEMBERS: Carried.

The CHAIRMAN: We have the right to sit while the House is in session, and I think we should meet again this afternoon, to give Mr. Bevington an opportunity to conclude his statement. It is absolutely necessary that we meet during the sittings of the House in order to make progress with our business. I would like to suggest this to Mr. Bevington, and the same suggestion would apply to other witnesses who appear before the Committee, that they condense their statements as much as possible. For instance, I do not think it is necessary to read a statute clause by clause if it can be summarized. It would save considerable time, and shorten the proceedings of the Committee.

WITNESS: I would just like to state that there are five divisions of this subject. There are some that will not take very long to deal with, but there are other phases of it which I expect will take quite a considerable time. But at present I am not quite ready to deal with every one of those five phases. I have not had time to prepare a complete statement, and I would like a little time to do so. If we could meet again to-morrow and the next day, I could finish my statement.

The CHAIRMAN: Do you think it will take two sittings more to enable you to complete your statement? I do not wish any injustice to be done you, and I think you should be given ample time to complete your statement, but there must be a limit.

WITNESS: I would be quite prepared to go on this afternoon with certain phases of the question. I can close this particular part of the subject very soon.

The CHAIRMAN: Can you proceed with some other phases this afternoon?

WITNESS: Yes.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, we will resume our proceedings. Mr. Bevington will continue. I think you had better stand on the platform, Mr. Bevington, and you will please speak a little louder than you did this morning.

[Mr. George Bevington.]

APPENDIX No. 2

Mr. GEORGE BEVINGTON resumed his evidence as follows:

The WITNESS: On our adjournment we were dealing with the bank deposits and loans. I resume from that point. We had shown that these items are the outgrowth of the loaning of bank notes or Dominion notes in the possession of banks. Any interference then with the flow of this national life blood, credit, out and back into these institutions has a very great influence upon the business of the country, that is, in supplying the needs and requirements of the people. This volume comes into existence as bank created credit that you have against assets deposited by the people or nation, which by law are redeemable in the asset of the note maker. That flows out and comes back on deposit; flows out again and comes back on deposit, and that same is what really is used in the transference or distribution of goods day by day. This amount of notes is not, but to a very small extent, in circulation. Sir Edmund Walker states that the Dominion notes included in this amount here (indicating on chart) which we have just noticed in circulation, were \$290,000,000, are mostly held as reserve by the banks. His statement is that seven-eighths of the Dominion notes are held as reserve for redemption purposes by the banks. I have reference to his statement here if it is required. That means that practically the whole of the business is transacted on established lines of credit. I would like to refer to clearing house statements of London and New York to show that only seven-tenths of one per cent of this volume entering banks as deposits is in Dominion notes; that is speaking of those countries, not our country, the Treasury notes, bank notes or specie, seven-tenths of one per cent. So that you will see to what extent this business is carried on on an established line of credit. The real credit is held by those who are establishing a line of credit. In other words we will see then that the control exercised by the banking institutions is almost complete. Any time that that flow is interfered with, it has a very vital effect upon the national well-being. I would like to refer then to the nature of the securities held by the Treasury Board, and give you some idea of the nature of those securities before we pass on to another point on the chart.

In answer to questions asked of the Minister of Finance on the floor of the House, you will find of Hansard of June 19, 1922 how, according to the statement in Hansard the year previous the amount of the Dominion Government notes issued for circulation was \$290,194,000. For what reason was this amount of Dominion notes issued for circulation? For what purpose were they used? What security was taken? Does the Government receive interest? The answers to those questions are given in the following:—

“On Dominion notes outstanding on February 28, 1921, \$127,000,000 were issued against gold under the Dominion Notes Act, 1914. Of the balance, namely, \$163,115,075, \$26,000,000 were issued under chapter 4-5, George V, with security as provided therein, \$50,000,000 were issued as advances to the Imperial Government for the purpose of assisting in financing its war purchases of Canadian produce, munitions, etc., and were secured by the deposits of the Dominion of Canada, New Zealand and South Africa sterling bonds, and Canadian Pacific Railway debenture stock; and \$87,000,000 were issued to banks as advances under the Finance Act, 1914, and secured by the deposit of securities approved by the Treasury Board including”—that is what I want you to take particular notice of—“including Dominion of Canada bonds and Treasury bills, bonds of the provinces of Canada and Canadian municipalities, British Government Treasury bills, Canadian Northern Railway Company, certain industrial bonds and stocks, assignment of grain and produce, and demand notes of commercial houses endorsed by the bank to the order of the Minister

[Mr. George Bevington.]

of Finance." Those were the securities taken in exchange for those Dominion notes. Again we will see that the basis of all of this credit that was circulated, functioning as money, bank created credits, find their base then again in the natural base securities upon which the credit extensions were made. This volume of debt, as represented here, almost \$10,000,000,000, is to a very great extent held outside of Canada. Something over \$4,000,000,000 of that is held outside of Canada. The balance is held inside of Canada. Consequently the interest increment upon this amount here would be largely paid to the people resident in Canada. The interest on the \$4,000,000,000 would be paid to people outside of Canada. The total amount of interest on \$10,000,000,000 for a year, figured out at 5 per cent would be about \$500,000,000. We will see to what extent we must produce and be able to sell the surplus product to meet our interest bill annually, \$500,000,000. We must also remember this, that each and every country in the world is also in the same position that we are in; they must produce and sell tremendous amounts, more than they are able to consume themselves, if they have a surplus in money with which to pay their interest. When we think of that condition, then this question must come to our minds, to whom are all the nations of the world going to sell the surplus product with which to meet their interest bills in money. That is what it sums itself up into. Where are all the nations going to sell a volume of goods greater than they buy for money with which to meet their interest bills.

By Mr. Good:

Q. You except the United States?—A. No, they have a national debt of \$24,000,000,000 at the present time. They must find a place where they can sell \$24,000,000,000, if they are to meet the interest and the payment of the principal of their debt.

By the Chairman:

Q. It is all an internal debt in the United States?—A. I would not say it is all. There is a considerable portion of it.

Q. Practically all of it.—A. Up until the return of the securities to the United States made during the war, by the British Government. There was a very large portion of their interest due to England, in so far as paying off that interest is concerned, it does not make any particular difference to the producer. We will be able to pay the interest, whether it is paid outside or inside the country. We must consider that there must be a consuming ability somewhere, able to take that volume of goods and consume the goods if the interest bill is to be paid. Now to whatever extent a person drawing interest is able to live off of the interest, then interest can be paid to that person in goods, because they require goods on which to live, but to whatever extent interest due people is greater than their ability to consume goods, then there is no way in which we can pay that interest to that person. That must be if paid to them in money, and that is the way we pay our interest bills; we hand over to the people to whom interest is due, a volume of money equal to the interest bill. We are supposed to have possession of that money by having produced goods and sold the goods for it. Then the money is taken from him and given over to pay interest; if the person receiving that amount spends it for goods and sells the goods, then the volume of money passes into circulation and your balance would be maintained, but if only a per cent of that amount is spent back for goods, then it remains out of circulation and out of use until it is re-loaned back again, but to the producer in his efforts to produce to meet the need. I will leave that with you to consider the situation that we are facing in Canada, as well as the situation that other people are facing in other countries.

[Mr. George Bevington.]

APPENDIX No. 2

Q. You do not mean to say that Canada remits in actual money for her interest?—A. We have got to give the people to whom we owe interest a purchasing power equal to that volume of money, whether we give it in money or goods.

Q. We cannot pay it in actual money. We give it in notes?—A. If we give the goods to the people to whom we owe interest in that volume and they could not consume the goods, then we would find the volume of goods mounting up somewhere and no money purchasing power in circulation with which we could purchase and consume the goods. That is the point. That being the case, with the situation as it exists today, warehouses full of goods, people anxious and needing to store greater quantities than they are consuming today, yet without a purchasing power to secure those goods, the result is, prices falling, manufacturing plants running idle, farmers going out of business, and stagnation in all lines of business. We must find a way by which the purchasing power of the people shall remain at all times equal to the selling price of all goods on sale. When we do that, we will have no more of these troubles we are now experiencing. The way we have been meeting that situation in the past has been that when there is a bulk of goods greater than the purchasing power of the people, we have had to resort to the issuing of bonds, mortgages and other instruments with which we could bring out into circulation the purchasing power necessary to purchase the accumulation of goods in order to cause a greater demand for more goods and reproduction. That builds a national debt; that builds an individual debt; that builds all the debts that are heaped upon humanity. That is, to my mind, very much a mistaken system of finance. I think that completes my statement in regard to the first part of this inquiry, "What is the basis and function of credit."

I am not just now prepared to go on to other points, to the next question, "What is the function of credit," but I would be prepared now, if it is the will of the Committee, to answer if possible any questions that might be raised.

By Mr. W. F. Maclean:

Q. Might I ask this question: would it be possible to ease up the situation by a process of cancellation?—A. All these countries are apparently indebted to other nations.

Q. Could there be a universal cancellation of a lot of those?—A. It is doubtful whether a universal cancellation by Acts of Parliament could take place.

Q. Between the parties?—A. Most men are inclined to look upon the securities that they hold as real property and I fancy would object very much to their cancellation.

By the Chairman:

Q. Can you not proceed with some other phases of this? I understood you to say at the close of the morning session that you could proceed further with certain phases of your subject?—A. Mr. Chairman, I would look at it this way, that to proceed to other phases of this question and then undertake to answer questions dealing with it in that way, that we would likely get very badly mixed up in the answering of the questions. We would have questions coming on three or four points, and not be proceeding on one point.

Q. It is very hard to ask you questions also until we know what your conclusions are. You built up the first story, or the basement, I do not know which. There are two other additions to build.

MR. IRVINE: I think perhaps there are sufficient grounds for a number of points arising out of the point which Mr. Bevington has been dealing with during those two sessions. He has been trying to establish that the credit of

[Mr. George Bevington.]

the nation is based upon social assets, that it is being controlled largely by the banking institutions and the suggestions are that it should be controlled socially, inasmuch as it has been done in particular cases. That should be extended.

The CHAIRMAN: He has not reached the stage to tell us how he is to control this socially.

Mr. LADNER: We have had a very able and excellent analysis of the final operations and superstructure of credit and an accumulation of data that should be very valuable to every member of the Committee but after all what we are really endeavouring to do as business men, in enquiring into this matter, is to find out if there is some better solution than the one that exists, that depends on the conclusion the witness arrives at, and if we cannot go on with the enquiry so far as the evidence is concerned, the suggestion occurs to me, that as the witness must know that, he could briefly give us what he proposes to do—essentials, and then we would have a real basis for suggestions and we could use our time more usefully than asking questions about an already comprehensive paper.

Mr. HUGHES: The witness has outlined a system that does not meet with his approval. That is quite evident. He thinks the present monetary system and the present credit system are at fault. I would therefore ask him to place before the Committee what in his opinion would be a better system, because he must have that in his mind.

Mr. IRVINE: That is anticipating the further statement of the witness. Am I to understand from the Committee that they accept now all that Mr. Bevington has placed before them?

Mr. W. F. MACLEAN: We do not take that position.

Mr. IRVINE: What is the matter with it?

Mr. W. F. MACLEAN: I thought you wanted to ask him a lot of questions.

Mr. IRVINE: I am prepared to ask him questions, if nobody else is.

The CHAIRMAN: I think he has not yet developed a system. He has been laying down certain premises with which some may agree, and with which many will not agree. He has not yet reached the stage where he has unfolded his scheme.

Mr. IRVINE: If we can find that the basis is rotten we would save the Committee the trouble of building the structure. If there is anything to be found wrong with the basis now, let us discuss it. If we are all agreed that the basis is correct, let us proceed.

The CHAIRMAN: I think he will go on to-morrow building it. If you wish to proceed questioning the witness——

Mr. HOUSE: Is the witness prepared to answer that?

Mr. W. F. MACLEAN: Let him state his case.

The WITNESS: I have reference to the fifth division of the subject, a statement in regard to another or a better credit structure, and I would not like, as has been stated before, to undertake to state something that we believed would be better, if in the opinion of this Committee that which we have is the best and only thing that can be done. As Mr. Irvine stated, it is not necessary to build the superstructure or offer any further suggestion or any suggestion as a remedy, if we are satisfied with the thing that we now have.

The CHAIRMAN: I do not think that is fair, Mr. Bevington. However, you will have your own way.

Mr. CAHILL: Is it not a foregone conclusion that if there is anything better we would like to have it?

[Mr. George Bevington.]

APPENDIX No. 2

By Mr. Irvine:

Q. Am I right in assuming that you have already laid the basis for the system which you would propose?—A. As far as that is concerned, I can say yes. I do not propose any change in the basis of credit. I do not think any person could lay a better base upon which to build a monetary system than we have been practising in Canada during the last seven or eight years. We have been working on the people's credit, and we could not build a better structure.

By Mr. W. F. Maclean:

Q. Has that been recognized by the Bank Act?—A. No, it has not.

Q. Well, that is the point.

By the Chairman:

Q. Looking at the very last paragraph in this memorandum of yours, do I understand that that means something analogous to the Federal Reserve system superimposed in our present banking system, or do you mean the abolition of our banking system and the substitution of yours?—A. This system must be found useful unless we can create a better one. If we establish a better one (and I am going to outline what to me seems to be a better one) if we can establish it so it will grow into a system so that we would prefer to use it to the one that now exists,—if we can accomplish that we will accomplish something.

By Mr. Irvine:

Q. There are a few more points I want to bring out more clearly before Mr. Bevington leaves this section of his subject. I would like to ask, having regard to the structure which you have outlined, the financial structure, why, in your opinion, do banks pay interest on deposits and what effect does that have upon the pyramiding structure of finance?—A. Why do banks pay interest on deposits and what effect does that have upon the pyramiding of loans and deposits? A bank note, when it goes into circulation from the bank is the promise to pay of the bank, is redeemable in the asset of the bank, which may be premises, which to a very large extent is premises. Now, when that bank note goes to an individual and then is passed over to another individual for goods, the second individual has received payment. The first individual has received payment from the second individual, because the second individual has given goods in exchange for the notes. The second individual has become possessed of the bank's promise to pay. The second individual would need to go on to exchange it for goods with somebody else, because they may have sufficient goods. Therefore they take it back to the bank and you have it for redemption. When it comes to the bank, the banker instead of redeeming it, giving a portion of his assets in exchange for it, probably says to the individual something like this, "we are paying three per cent for deposits; we would like if you would leave this on deposit with us." "Well," he says, "that is probably as much as it is worth to me at the present time, and I will leave it with you until some day when I need it." This means that the banker has hired the individual to allow him to defer payment of his note.

By the Chairman:

Q. Allow whom?—A. Allow the banker to defer payment of the bank note. The banker does not pay. He offers the individual three per cent if he will not press him for the payment at that time, but take payment at some future time, or hires deferred payment. He enters it up as a deposit and proceeds to loan it out again to somebody else in exactly the same manner, and when it comes back again it is the same thing to the next man, who comes with the note for redemption. "I will give you three per cent again if you will allow me deferred

[Mr. George Bevington.]

payment," and that is entered into, and he puts it on deposit again and completes the process. The only point in that connection I would like you to take particular notice of, is that the loan precedes every deposit.

Mr. HOUSE: No.

The WITNESS: It is bound to.

By the Chairman:

Q. Do you object to a banking system which permits of that interest charge? Are you against the payment of interest?—A. Not against interest, so far as interest is necessary as a service charge in operating public credit.

Q. This bank note represents interest in property and entitled to holder to buy an interest in property. To all intents and purposes that is proper. Take a case like this: supposing in Alberta one farmer has a binder machine and his neighbour borrows this binder, it would not be unfair to exact a charge, would it?—A. For the binder?

Q. Yes.—A. A use value, yes.

Q. What is the difference, they are both property. The bank is simply using the property. The neighbour farmer is using the property of his neighbour, and he is exacting a charge for service?—A. I admit interest insofar as it is necessary to meet that service.

Q. For money or currency, which is but an expression of an interest in property. Is there any distinction between them?—A. Yes. In this particular case—

Q. Speaking generally?

Mr. IRVINE: I want to point out that you are leading the witness away from the point.

The CHAIRMAN: Let him answer what is the distinction.

The WITNESS: There is this distinction, if a man loans his binder to his neighbour, he has loaned a concrete thing.

Q. Instead of putting the money into the bank he put it into a binder or a piece of property?—A. When he put it into the bank it starts to function as property because the bank in the first instance, in occupation of the property on which the note is based, is using it itself. Now then, it represents other property when it comes back into the bank and the banker has control of other people's property that does not belong to him and might direct the use of that, we will say, for the purpose of accumulation in one part of the country, by one set of individuals, may divert the use of that to another section of the country, or even outside the country.

Q. I want to ask you, do you think a bank has money at any time—or let me put it this way: has a bank anything at any time but property? For instance if they have \$50,000,000 loaned to grain dealers in Winnipeg, what the bank really has is an interest in the wheat. They hold a promissory note, probably?—A. If they have a security, they have interest in the wheat?

Q. If you could re-write the actual facts about the bank's assets, it would all appear as wheat, lumber, cattle, hides or something?—A. Yes, sir.

Q. It is all property?—A. Except this fact, in this pyramiding—

Q. Fundamentally, is not that statement which I just made, correct?—A. No, I do not think so.

Q. I thought you admitted that?—A. If it belongs to the bank, yes.

Q. What is the difference between the bank owning property and anyone else owning property?—A. The bank, my contention is, does not own this property. That represents these loans, and yet it is in control of that property by hiring the control at three per cent.

[Mr. George Bevington.]

APPENDIX No. 2

Q. They are trustees for people who are stock-holders and note holders?—
A. Yes. They are not handling their own property, but their own property is simply a guarantee that they will return the property of the depositor on demand.

Mr. LADNER: If you make them a trustee.

Mr. W. F. MACLEAN: The same thing is being used three or four times over.

By Mr. Irvine:

Q. The payment of interest by the banks permits the bank to postpone the payment of its own notes. Is that not the point?—A. Continually. Deferred payment of their own notes and different notes going out and coming back on deposit, leaving them in the hands of the bank, which are secured for the loan, which is \$1,709,000,000, and they have that deposit belonging to other people. They are in position to direct the use of that deposit or of that credit to a different part of the country, wherever they see fit, or not use it at all, if they see fit. Insofar as this amount that they are handling simply as a trustee, subject to withdrawal on demand, I cannot admit.

By the Chairman:

Q. A bank does not own anything outside of its capital and reserve?—A. Exactly.

Q. A bank is the greatest debtor in the country. It does business on property handed to it by other people and all they have at any time is represented in property, real estate or some fractional interest in a railway, expressed by a bond. They are dealing in property all the time, are they not?—A. No, not that. They are dealing in debts or instruments that represent property.

Q. I think you imagine that there is such a thing practically as money?—
A. I do not concede that.

Q. Of course, gold is money, but it is a commodity, that is, all the money there is is gold. The business of trade is no more than swapping goods.—A. In the final analysis that is what it is.

Q. It is a simple analysis of swapping goods. That is what the world's business is and no man in the world owns anything except an interest in property and goods. If he owns anything at all it is an interest in property and goods?—
A. Yes.

Q. The reason why I wanted to bring that out, Mr. Bevington, is this, that you seem, to my mind at least, to accentuate too strongly the idea of money instead of sticking to what is an interest in property.—A. I cannot admit that a bank has any proprietary interest in this property, that is represented in these deposits. It only has a trusteeship interest in it.

Q. A deposit represents interest in property somewhere?—A. On the part of the depositor.

Q. And the banker is simply dealing with the property at the request of the depositor, or at least with his permission?—A. Left in his care. The people's reserve then or saving is left in the care of the banker to handle and direct as he sees fit.

Q. I am not opposing your theory for the mere purpose of opposition. I am trying to get at what would seem, I think, are the fundamentals of the thing. Would I gather from your remarks that you think the bankers are merely trustees for the depositors?—A. Yes.

Mr. HANSON: I do submit that legally that is not the position existing. They are debtors and creditors. The property has passed.

[Mr. George Bevington.]

The WITNESS: The property has not passed, but the right of possession of that property has been pledged.

Q. The property has passed.—A. Not until foreclosure proceedings or something like that have taken place, or security pledged by the borrower, which represents \$1,709,000,000. There may be other cases where a man would walk into a bank and say to the banker "I want a loan. I will sign my note." The banker takes the note. He enters up the note on one side of the ledger and on the other side of the ledger the credit to the borrower. The accounts balance. The man has nothing of the bank's, but yet he pays for the loan. He is given a check book and he walks out and commences to check against the deposit of his own securities. The bank has nothing in connection with the transaction.

By Mr. Hughes:

Q. The fact that a number of people make deposits in the bank, does not the bank act then as a reservoir for collecting the savings of the people?

The CHAIRMAN: Mobilizing the savings.

By Mr. Hughes:

Q. Mobilizing the savings, that might otherwise remain in teapots or stockings or a strong box or something of that kind. From this reservoir they make loans to the people who are in trade and commerce and in industrial work that especially enables them to carry on that work, and this continual borrowing and continual depositing increases the capital of the country many many times, and enables a very much larger volume of business to be done than would be otherwise possible.—A. I do not think I quite agree that it does just what you picture it to do, increase the capital of the country. My contention is that while it may increase the real capital of the country it also increases the debt of the country to balance it.

Q. But if, instead of being as you have stated, a reservoir for the receiving of these savings for the people who are entitled to the use of those savings—remember they are only represented in the bank's promise to pay, while they hold them. If they were able to go to the bank and draw the real property in redemption of the bank's note, they could not hoard it up and save it, and the like of that, unless they did simply, as you put in your winter's supply of produce in your cellar that you are going to use every winter until it is gone.

Q. As a matter of fact, the banks have in past years redeemed all their notes at any time they were asked for redemption?—A. I have not questioned the solvency of banks nor their ability to meet their obligations at all.

Q. This is given to the individual, which he can exchange for anything he wishes?—A. Provided they keep continually loaning.

By Mr. W. F. Maclean:

Q. Are you not saying that the same piece of property is used in the same way, to take interest several times over?—A. Yes.

Q. The same piece of property is collecting interest repeatedly by reason of the bank's system. That is what you are trying to say.

By the Chairman:

Q. I suppose that is right, and the bank makes a charge for service and the man owning the property gets some charge for interest?—A. Yes.

By Mr. Hughes:

Q. Unless the banks pay some interest they would not attract these deposits. These deposits would remain idle. That is the life blood of the country.—A. I do not know that it is true.

[Mr. George Bevington.]

APPENDIX No. 2

By Mr. Irvine:

Q. Is it not so that when these men who want to save their savings deposit their money in the bank, they are depositing the bank's promise to pay?—A. Yes.

Q. That is what they are depositing?—A. Yes.

The CHAIRMAN: Surely not.

Mr. IRVINE: Would it be possible if the bank were called upon for a daily redemption for that pyramiding to take place?—A. No. If they were not able to hire the postponement of actual redemption, they could not pyramid.

By the Chairman:

Q. Just to elucidate the question Mr. Irvine put to you. Mr. Irvine stated that a man who deposits something deposits the bank's promise to pay. You suggested it. I would doubt the soundness of that. Suppose I have a thousand bushels of wheat in Alberta which I had grown this season, and I had kept out a hundred bushels to keep myself and family going for the winter, and I sold 900 bushels and got \$900 and I had no use for it, what I would do would be to deposit that in the bank. What I would deposit in that case was really 900 bushels of wheat. A. Something representing 900 bushels.

Q. As a matter of fact that is what it is, is it not?—A. No, it is not the wheat.

Q. I decide not to burn that or give it away. I decide to conserve it and put that 900 bushels of wheat in the bank, and the bank in reality loans my wheat to somebody else. When you get down to the rock bottom of things, is not that the fact?—A. No, I do not think it is.

Q. Is there any difference in your judgment in trade or banking between 1923 and the days of the patriarchs, when they gave oil for wheat and frankincense for something else, except that we have introduced in modern days the scale or the yardstick which we call money. Does not that represent the only distinction that has developed in trade and commerce during the last two or three centuries, or the last two or three thousand years. A. I do not think I could admit your reference to money as a measure or yardstick, because it has hopelessly failed to measure anything.

Q. What other function does it perform?

By Mr. Irvine:

Q. Let us understand that illustration of the Chairman: instead of having one man with a thousand bushels of wheat, I am going to take three men with a thousand bushels and I am going to put a wheat buyer in there and he gives you \$900 and you deposit it in the bank. The next day he buys the next man's wheat and gives him the same \$900 which can be got by the transaction through the bank, and the next day he pays another man with the same \$900. Now, which thousand bushels of wheat would it represent?

The CHAIRMAN: You gave an illustration in the House the other day. You said it would be very inconvenient to leave Calgary and go to New York with a butchered ox and take a pound out to go to the theatre and take a pound out to get some near-bear or something else.

By Mr. Irvine:

Q. In this case I am not offering any criticism on it. I am trying to find out what takes place. Is that what takes place?—A. In the matter of the wheat, but the first buyer of the wheat was able to pay for the wheat he must have got either into possession of bank notes or a line of credits which allowed him to check against the deposit of securities.

By Mr. Hanson:

Q. He may have had other goods?—A. There is a beginning to all things, and the bank is the beginning of the issue of money. That is the only place we have in Canada today, regardless of the fact. Our Dominion Government prints the note; our Dominion Government does not circulate them, and it is not issued until it passes out over the counter into circulation.

Q. That first circulation must take place somewhere after it has passed out once?—A. After it passed out against the pledge of goods. Then it comes back and may be passed out again and come back and be passed out again, again and again.

By the Chairman:

Q. Every time money issues or passes, that represents a commercial transaction in which the man has bought or sold goods or rendered service, or something of that kind, which is equivalent to goods?—A. Yes.

Q. The only advantage of a bank issuing bank notes is its convenience. You would have to have a warehouse covering the whole island of Montreal—

By Mr. Hughes:

Q. It brings the borrower and the lender together?—A. It brings the borrower and the lender together, but it does not bring them together at the right time, to meet the borrower's necessity, and if I am correct in my assumption that the business of this inquiry is to find a basis of credit and issuing on that basis for the purpose of meeting the needs—

Q. You think the nation should be its own banker?—A. The nation is the banker at the present time, not recognized by the people to be such directly, but is that indirectly, through the banking system at the present time.

By Mr. Ladner:

Q. I understand you to say, Mr. Bevington, that for the services which bankers or firms carrying on that business perform, that you have no objection to interest being charged for the service?—A. To the amount of the necessary service.

Q. Is not the present banking operation merely one in which services are rendered, in which perhaps the returns are greater than what they should be. In other words, does it not come down to the question of the bank securing more interest than what would be secured in some other way by a national bank?—A. I do not know that I grasp all that is involved in your question.

Q. I will make it as clear as I can. The functions of the bank most of us know. They perform certain services in the community respecting commodities and business operations. You say they are entitled to a certain charge for interest. We know that banks do carry on these functions, and they do make a charge which gives them certain dividends or certain returns for their service. Is it your proposition that the banks get too much for their service and that the Government, carrying on the same functions, could do so with a less return for the service?—A. Yes. I think that is true, that the Government acting as the executive heads of the people could do better service for the people at much lower interest charges.

Q. Then your real point is, by the Government engaging in the banking business we could do it cheaper?—A. Do it cheaper. Do it more efficiently than it is at present being done.

Q. Is not that the whole proposition you are submitting to the Committee?—A. Yes.

[Mr. George Bevington.]

APPENDIX No. 2

By Mr. W. F. Maclean:

Q. Is not the same property used several times by the bank, in the building up of profits that are being made by the institution?—A. I would like to point out that in our system in Canada we have, represented by the statement of banks, \$71,000,000 invested in premises. If we had some way of arriving at the value of the property represented by that \$71,000,000, I think, we would find it ran to considerably over \$200,000,000. The paid-up capital of the banks is only \$125,000,000, and as a result the difference between the amount that they show as being invested in banks and the amount actually of these premises is more than the original paid-up capital of banks, that is in the undivided earnings in the system accumulated. Further than that we find there have been a distribution of dividends from year to year in all of the years that the system has been in operation, varying from a small institution up to what it is at the present time, and in the last two or three years the disbursed dividends of banks have been something over \$20,000,000 in each year, after paying for all the costs of operation, paying for all the insurance and everything else that is necessary in carrying on such a business.

By the Chairman:

Q. Is that an unfair interest charge?—A. I do not know. I am not going to say whether it is or not. I am afraid to give the actual facts in the accumulation.

Q. Six or seven per cent of the capital put in the bank, I suppose that would not be an unfair distribution to the shareholders?—A. That is if it is absolutely necessary that a monetary system should be run on a profit-making basis, since it is based on the nation's assets and the nation must stand behind the system in any case.

Q. Does the nation own any assets or the individual?—A. The right of title to property remains in the Crown, if I understand the British constitution.

Q. In my province the Crown has not one acre that is worth a cent left. The taxing power remains in the people. You remember the Declaration of Independence? We are governed by the consent of the people?—A. Yes, but at the same time—

Q. The nation after all is a good bit of fiction. The nation is only a combination of individuals.

By Mr. Ladner:

Q. Do you know the operations of the Commonwealth Bank of Australia, where the Government has engaged in the banking business, in order to provide better service and cheaper prices? You know that the result of that has been to limit the extension of business; it really interferes with business operations?—A. I do not know that I can admit that that is a fact.

Q. Would you say the Commonwealth Bank loans are equal to those of other banks in Australia?

The CHAIRMAN: I suppose that is aside from Mr. Bevington's argument.

The WITNESS: In answer to the gentleman's question, I would say this, that in ten or eleven years the Commonwealth Bank of Australia has been operating, starting without a dollar of paid-up capital; that it has at the present time some \$640,000,000 worth of assets. In the same way our banking institution accumulates, this has made that amount of loan extension and has been doing that at six per cent interest during the war period.

Q. Has not that loan extension been to the profit of the banks and to the Government rather than to commercial enterprises and business in the country?

[Mr. George Bevington.]

—A. It may be to some extent a larger amount than is by some of the old established banks.

Q. Is it not fact that the Bank of Australia is a real discount bank very largely?—A. No, I do not admit that.

Q. I understand the Commonwealth is dealing in exchange and does very little commercial business.

By Mr. Ladner:

Q. Its original intention was to assist the community at large. What I want to ask the witness, if you withdraw the investment, money which is out for a long time on investment, then there are quick loans, deposit money, if you withdraw in the form of savings a quick loan or ready money through the Government Bank, even like the Province of Ontario has, instead of those savings going into the regular banks and being loaned out again in the form of loans to the advantage of commerce or industry, it is put into Government savings banks, locked out in Government improvements. Do you say that is an advantage or a disadvantage for the community?—A. Since the Bank of Australia has not had the exclusive right of note issue, it had to grow up in any way it could, and it made very great progress in ten years.

Q. You could not expect it to revolutionize the monetary interest in Australia in that short period of time, since it had nothing to start on?—A. It must keep itself in the position where it can meet the demands of its depositors at any time, must keep that money invested in what is called liquid securities that it might meet that at any time. The result is that it must loan the money under such securities as it is able to liquidate on to meet the requirements of its depositors, consequently it could not make extensions on farm loans. It is not that kind of an institution, but it has within it the germs of development if given the time necessary and the endorsement of the people of Australia through their Government, it will develop into an institution that will supply all the requirements of the country and supply it cheaper than it was ever done before.

Mr. Good: I have been trying to present to the Committee a little incident in history which I think may throw light on the question under discussion. I was reading the other day a history of the State of Pennsylvania. In that history there is a very interesting account of the difficulties which the settlers were up against in the early days in the exchange of commodities. They were forced in a large measure to resort to barter. They had little metal money on account of the fact that there was very little overseas trade. The community was expanding and the necessity of some medium of exchange was very evident. They resorted to an issue of credit notes, paper money, which was obtained by borrowers, circulated by the State, something after the fashion, I think, of what Mr. Bevington suggests. I think it is very difficult for us to understand just what we all mean in this discussion, and I hope that we will be patient with one another and try to get at the very fundamentals. Well now, it occurred to me just in this connection, at least it has come to my mind this afternoon during this discussion that perhaps I might put a hypothetical case in regard to the history of Pennsylvania, which would elucidate the question which you asked Mr. Bevington. These people were experiencing great embarrassment and difficulties in connection with their system of barter, in that some ingenious individual or individuals came along and said, "now, here we can facilitate this process very much if you will use these counters. Here is a system whereby you will not be inconvenienced with all the inconvenience of barter. Give us the privilege of having part of the monopoly of these tokens or mediums of exchange." Suppose they were to have secured a monopoly of the issue of these

[Mr. George Bevington.]

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instruments of exchange. Then they would have the matter in their own hands, and could charge for the use of those tools—they are tools, conveniences, and it was worth whatever the business would stand. Supposing at that time the people through their elected representatives, as we are here to-day, came together and said, “now we can do this business more cheaply and better than this particular company or group of individuals is doing it. They are performing a service. We do not deny that. We can perform the service better than they can.”

The CHAIRMAN: That is the State?

Mr. GOOD: Yes. I simply throw this out, not in order to convey any particular conclusions I have arrived at, because I have not. I find it a very difficult one to understand, but it does seem to me if we would have in mind that historical incident, the situation that existed at that time and see that there were two possibilities that were before the people—they adopted for a time the public issue of credit and these notes were cancelled. They were not like our notes, circulating constantly, but when they came back to the State they were cancelled the same as our bonds are. I simply throw that out. It perhaps might elucidate the point.

The CHAIRMAN: The Government of Brazil issues under what they call their amortization scheme, notes, pesos, I suppose they are, to the producers of coffee.

By Mr. Good:

Q. Perhaps I might ask Mr. Bevington if the illustration that came to my mind is pertinent to the question?—A. I think that is really the subject of the inquiry, of getting to what is the base of credit, and how credit instruments functioning as money should be issued against that base.

By Mr. W. F. Maclean:

Q. Is not this what the witness is trying to get, that the banks are building up an undisclosed asset by using the same property several times and that they have this great undisclosed asset at their disposal now and are using it to their benefit rather than to the benefit of the country. Is not that pretty nearly the point you are trying to make?

By Mr. Cahill:

Q. Do you say the banks are using the same asset more than once?

By Mr. W. F. Maclean:

Q. Is not that what the witness is trying to make out, that the banks are building up an undisclosed asset, and he speaks of buildings. I think I can name a bank that has one building that is equal to all its capital stock, and other banks—if we are to go by the witness, are gradually building up an undisclosed asset, which gives them control of business in an unfair way. Is that true or not?—A. I think to some extent it is true.

Q. Is that not what you have been trying to prove just now?—A. That is one of the things I have been trying to bring out, that there is that undisclosed asset.

By Mr. Cahill:

Q. Is a secret reserve?—A. The invisible asset which does not show on their statement. Aside from that I would like to point out another great waste in the system, if I might be permitted. We have a duplication in all of our towns, cities and villages of banks—I could point you out many places in the west.

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little towns of 4,000 inhabitants that have from three to five banks operating in the town, with not enough business for one bank, but still they are there. I could point you out one place in particular where the branches have found it necessary, in order to meet the cost of maintaining the banks, to charge 10 per cent per annum, and to compound it every month; and the branches under those conditions do not show a profit. Take the city of Edmonton, in one block of the city, on either side of the street there are eight tremendous buildings for a city of the size of Edmonton, all owned by banks.

By Mr. W. F. Maclean:

Q. Paid out of the bank's original capital, I suppose?—A. I would not say that. I would rather think they were paid out of the undistributed earnings of the institution. One of these institutions would be quite ample for the convenience of the community, but there is this measure of waste in the system. There are eight lots, eight buildings, and taxes must be paid on them. There is the insurance charge; there is the depreciation charge; there are eight staffs, and all of these must be accounted for in the interest rate charged. Therefore I would agree that bank mergers are justifiable, but I would only go to the limit of merging them into one institution owned by the people of the country.

By Mr. Morin:

Q. You said that the basis of a nation's credit is the number, intelligence and industry of its people, plus the capital equipment and natural resources within its boundaries. Should not your idea of the basis of credit include as an essential element of it, the element of time, or in other words is not the credit of a man or of an institution or does not the credit of a man, institution or State depend to a great extent on its ability to realize on its assets in order to meet its liabilities when they become due at a certain time?—A. I think you confuse the two particular points. The basis of credit cannot be more than is stated in that statement of the basis of credit. The nation's ability to meet its obligations is the product of those people and of those natural resources on which they have to spend their labour. That is, their ability to pay is measured by that.

I think it may be a good deal less if we take into consideration the fact that our credit is limited by the possibility of realizing on them when our liabilities are due.—A. Yes.

Q. If you take into consideration that element which I consider essentially a true understanding of what credit is, you limit your credit to a certain extent?—A. We are considering the basis upon which we will issue credit instruments, circulating, representing the wealth of production, that is in the channels of trade; we do not require the issue of a credit for anything else, but simply the transfer of goods in the channels of trade. After a person has produced a sufficient volume of these commercial goods to give them the representation of the capital, and then reinvest that in what we call capital investment, then they become the possessor of real property, such as plant and land, but out of the commercial or consumable goods we produce as individuals, we establish our real base of credit, that is, we add to the natural resources.

By the Chairman:

Q. Do I understand—I do not mean to say you would favour doing it now, but as to the wisdom of the doctrine, you say we should eliminate our present banking system and put the whole monetary system of the country in the hands of the Government, representing all the people?—A. No, I would not say eliminate the present banking system at all. I would say it is in the interest of the people of this country to start another system.

[Mr. George Bevington.]

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Q. And work them concurrently?—A. And work them concurrently on an equitable basis. I think the present system might continue to function in competition with it. I would be perfectly satisfied it should do so.

By Mr. Ladner:

Q. Do you know whether that has been practically tried out in this country, in 1866, under the Provincial Bank Note Act, where all the money was placed in the hands of the Government, subject to a time limit?—A. That was the Provincial Government.

Q. It was changed ultimately into the Federal and the responsibilities of Ontario were taken over by the Federal Government.—A. Did the Federal Government continue that banking system?

Q. Your idea is that the Federal government should assume completely the note issuing functions?—A. Not necessarily.

Q. Have the banks note issuing functions?—A. I have not proposed it be taken away from them.

Q. Do you think the banks should have the right of issuing notes?—A. I think the banks will have to be permitted to continue just as they are in maybe little modified forms, by amendment to the Act, but not in any essential change, unless we can provide some other system.

Q. What would the Government do in respect to issuing notes? Continue as it is now?—A. Yes.

Q. You have no suggestion to make as to any changes on that point?—A. Yes, I have a suggestion when we come to that fifth part of the programme.

By Mr. Irvine:

Q. I understand that it has been part of your contention that through the real owning of money, the bank failing to recognize its daily redemption, the present pyramiding system of finance has been built up?—A. I think so.

Q. Then you think that prior to the amendment brought in by this Government, that owing to the war conditions, the financial structure was precarious. It was liable to fall down?—A. Yes.

Q. In order to prevent that system from collapsing, as you have represented, the Government placed blocks of public credit beneath the large debts which have been piled up through the system?—A. A moment ago I understand some members of the Committee objected to the other statement that the nation had the right to issue the social credit and control the assets of the country. In that case we have a false basis now, that the Government actually did something which it had no business to do. It placed private property to bolster up a system which the banks have developed.

By the Chairman:

Q. Let us see what there is in this and let us do it by concrete illustration. Say the Bank of Montreal wanted to borrow \$25,000,000 under the Finance Act. They presumably had advanced \$25,000,000 to some customers and they wanted to realize on it. They come to Ottawa and see the Minister of Finance and they bring up with them \$25,000,000 or \$50,000,000 of securities, and they ask for Dominion notes, which is a war emergency measure. Are you adding to their outstanding currency by that transaction? The bank got back what it gave out. The liability as a matter of fact rests between the original borrower and the Finance Department, but of course the Finance Department has the guarantee of the Bank of Montreal. Where does pyramiding come in there?—A. The Treasury Board in that particular instance as outlined, would be acting as a bank of re-discount.

[Mr. George Bevington.]

Q. Just that?—A. Just that. It comes then to the head of the nation, issuing public credit, a re-discount in that particular place and goes back purchasing, dealing in more securities or debts to the advantage of shareholders in the bank, giving them the control as to where they will make credit extensions after having deposited the people's credits. It leaves the matter of control and direction entirely in the discretion of the bank manager or the head of the particular bank that is located in Montreal.

By Mr. Mitchell:

Q. To whom would you give that control?—A. I think it should be de-centralized. If it were decided to set up another institution, means would have to be found in that institution of de-centralizing that control.

Q. You have no suggestion at the moment?—A. No.

By Mr. Irvine:

Q. Although if that new basis of credit, introduced by this Government, called public credit, which nobody seems to object to, if the present system of pyramiding debts continues, is it not possible we will start repeating that same structure outside so that you will have a big pyramid instead of a little pyramid?—A. That would be the case provided that there was an amount of development work went on, an accumulation of basic assets, we would say, on account of which to make loans. If that was not the case, you could only pledge this credit outside of your country and then have a greater obligation than the total assets of your country would warrant.

Q. In that case do you not think it would be as much the concern of this Committee to find a new system as for you to find it? In other words, if the continuation of the present system is to declare pyramiding, which was saved for us, if that will be repeated, is it not time we were beginning to think, as well as you, as to what we are going to do with regard to this matter? The point is we are dealing with the situation. The point is, is that a fair statement of the tendency of the present system?—A. It simply means that the handing of more of the nation's credit into this people's bank gave them a smaller amount, having given them the larger base it would mean if they continue the extensions of credit given them on that base, it would mean it would grow in that direction again.

By the Chairman:

Q. Which succeeded? The privately owned and controlled bank or the Government bank? Which would fall first in Canada, do you think?

Mr. IRVINE: It depends on who the Government was.

By the Chairman:

Q. I am not talking about the banking operations in Paradise, but I am thinking about our own in Canada. Which would go to the wall first?—A. I should think the present system would.

Q. Would you not be afraid of political influence being exercised in making credits and that sort of thing?—A. Not if the institution were established in the way I think might be very easily established, in a de-centralized way, free from politics.

By Mr. Cahill:

Q. How could you have it free from politics?

Mr. W. F. MACLEAN: The Chairman suggested the banking system in the United States is being used politically, and politics have not interfered with it.

[Mr. George Bevington.]

APPENDIX No. 2

The CHAIRMAN: The United States Reserve Banks is provided by the member banks of the Reserve system. The Government does not operate the Reserve system of the United States, although I want to say this, that when President Harding, who was Chairman of the Reserve Banking System of the United States was asked to resign a few months ago, and the statement is made in the United States quite openly, it was due to politics. I have no doubt it was, but that is a different thing from a Government operated bank, from the American Reserve System.

Mr. GOOD: I quite understand the impatience of members of the Committee to reach the end of Mr. Bevington's case and find out what he would propose. I think we ought to restrain our impatience a little bit and not persist in asking him until he reaches the fifth point. I know we are all anxious to hear the solution he proposes, but it is a little premature, I think.

By Mr. Irvine:

Q. I would like to ask Mr. Bevington a few more questions. You have in your opinion established that the credit is a social asset?—A. Yes.

Q. You have included in that, for instance, the intelligence, the industry of the people of the country. You say also that natural resources enter into this main asset. Do you include also in a general way that the countries producing goods for human consumption would constitute human assets of the nation?—A. Yes.

Q. You have further stated that this social credit has been used by the Canadian Government, in the manner which you have illustrated, that it was utilized to save the tottering fabric of a financial system that was built up through pyramiding debts. Do I understand that is right so far?—A. Yes.

Q. You have not shown us that first of all this social credit was used by the Government directly, if I mistake not, in the issuing of Dominion notes by the Government, in the case of the Canadian Northern Railway, also in the case of the Grand Trunk Railway, also in meeting maturing obligations of the Government itself. In these three cases the Government has included as issue the social credit directly. You have tried to establish that social credit has been used indirectly through the suspension of specie payments?—A. Yes.

Q. This use of social credit has already been met by the Government of Canada. Would you say next that the use of social credit in this way by the Government was a natural development? In other words it was a logical step to be taken in the face of the situation that was confronting the nation at the time?—A. It was compulsory. In the interest of the nation such public credit must come to the rescue of a system which was not able to function in an emergency.

By Mr. Cahill:

Q. What would be the emergency?—A. War.

Q. Not for the first \$10,000,000? What was that emergency?—A. The emergency was inability of the railroad to operate, which was one of the arteries of distribution of goods.

Q. What would happen had that loan not been made?—A. The country naturally would have suffered.

Q. How would it suffer?—A. Because of lack of transportation.

Q. The bondholders would suffer; that is all.

Mr. W. F. MACLEAN: The country's investment would go down.

[Mr. George Bevington.]

Mr. IRVINE: That establishes that the railroads are built for the bondholders, that they have no other function. We will accept that, and pass on to the next question.

Mr. CAHILL: It establishes this, that the bondholder is responsible for his own investment, not for the Dominion of Canada. We should not come to the rescue of the bondholder when he gets into difficulties.

The CHAIRMAN: We were guarantors of the bonds. We were in a little different position to ordinary bondholders.

Mr. CAHILL: To no appreciable extent, not as far as the Dominion was concerned. The provinces were.

The CHAIRMAN: We were getting in pretty heavily, too.

Mr. IRVINE: It would be interesting to know if my honourable friend would suggest that the same thing would have taken place with regard to the banks, if the Government would have allowed them to go as they were, without coming to their assistance.

Q. You call this advance made under the Bank Act to the Canadian bank a social credit?—A. Yes.

Q. Would it not be fairer to put it this way: the Great War was on. We were selling wheat and flour and other food products to the other allied countries. They could not pay for it so we had to raise that money in Canada amounting to two hundred million, three hundred million or four hundred million dollars a year, which was beyond the capacity of our banks. There was nothing wrong with that?—A. No.

Q. So that the Government of the country had to buy some bank securities to loan that money? In other words that was an extraordinary case. It hardly meets your theory. I quite agree you have emphasized one phase of the situation. That is that there was a great extension of business caused by the war which necessitated a greater circulation of money to carry it, but there were other reasons as pointed out by Mr. Bevington this morning, that the banks could not pay in gold the amount of the money on deposit or on loan if a call was made. They would have to shut their doors. That happened in Great Britain after the war broke out.

The CHAIRMAN: For a few days.

Mr. IRVINE: The Government promised to back them.

The CHAIRMAN: They cancelled their specie payment, and we had to do it in Canada because no banking system could stand a run on a bank like that.

By Mr. Irvine:

Q. In view of the situation as you have put it before us, thinking that this pyramiding system may be repeated if the same system is continued, you do not say you have found the ultimate solution, do you?—A. No, I do not think I could really say that.

Q. But you are quite sure in your own mind that some form of de-centralization must take place?—A. I am.

Q. That might take place in some other form than the way you are outlining to us. Now could it be considered revolutionary if the Government were hereafter to assume the issue and control of all credit instruments on the same basis upon which the Dominion notes were issued in the cases cited by you, namely of the railroads, and to meet their matured notes?—A. I do not think it could be considered revolutionary, unless the fact of the public credit being put behind the institution we have now was revolutionary. If that act was revolutionary then, then the taking of the responsibility on the part of the Government would be a revolutionary act now.

[Mr. George Bevington.]

APPENDIX No. 2

By Mr. Ladner:

Q. Would you favour the change which was mentioned, leaving the word "revolutionary" out?

Mr. W. F. MACLEAN: It is a change of name. That is all.

The WITNESS: I do not know what other idea was embodied there.

By Mr. Ladner:

Q. That the Government has the sole power of issuing credit instruments?

—A. It has that power now. It has the sole power now.

The CHAIRMAN: Do you mean by that question that the Government would thereby practically take over all the banking business?

Mr. IRVINE: No, I do not know that I mean that. I mean that so far as the basis of credit is concerned, that the first step that Mr. Bevington defines has already been taken by the Government, but unless there is another step taken, the thing will re-pyramid.

The CHAIRMAN: You mean unless the Government functions under the Finance Act. Therefore they have taken a step forward along Mr. Bevington's idea.

Mr. IRVINE: They have taken the first step.

The CHAIRMAN: You might ask Mr. Bevington if he did not like the present banking system if he would not adopt the American system.

Mr. IRVINE: At present I am content to emphasize this one point, that social credit became necessary to block up the financial structure that rested upon the gold basis, that the Government took that first step, and that is the first step Mr. Bevington would advocate.

The CHAIRMAN: I fancy most of you are just in the same position as I find myself with regard to Mr. Bevington's address this morning. It was very interesting and shows that he is a very close student of the subject which he is studying. It was very difficult to follow him. One could not follow in one's mind all he did say and be prepared to question him this afternoon. Now it is nearly six o'clock, and I think we had better adjourn and allow Mr. Bevington to stand aside and resume his remarks at a date to be fixed. Is that satisfactory?

Mr. GOOD: Just before you leave this, I want to refer the Committee to a very excellent little booklet by Sir Thomas White, a story of Canada's war finance. It deals with a number of matters that Mr. Bevington dealt with this morning, and you get it in a pretty authoritative way, from a man who was Finance Minister during the war. I would recommend to the members to secure this little booklet and read it over carefully. I got the last ones that were available on Wellington Street the other day.

Mr. MITCHELL: Before we close, it seems to me we started out this morning, if I understood the situation, that we were going to hear Mr. Bevington's evidence in full on all of the five points and we were going to ask him questions. I confess I did not feel I was familiar enough with the subject to ask him any questions and it does seem to me, we should if possible follow out the intention we started out with this morning and allow Mr. Bevington to continue his story to the end and then we will be in better position to ask the questions we might have, because one is connected with the other in such a way that it is impossible to make head or tail out of it.

Mr. IRVINE: Mr. Bevington came down to the Committee this morning. He did not expect that there would be an afternoon session, and therefore he did not come prepared for that part of his address.

Mr. MITCHELL: I am just suggesting this.

[Mr. George Bevington.]

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The CHAIRMAN: That is Mr. Bevington's proposition that at the next meeting at which he appears, he will finish his statement.

The WITNESS: You will readily realize that being called here from Alberta, not having any inkling that I would be called or anything of that kind, not knowing what the nature of the inquiry was, arriving only last week, that it was a little bit difficult for me to prepare a statement in the way I might have done if I had more time. However, I have done the best I could, and I will not detain you a moment longer than is necessary to do myself justice, and the subject to which the inquiry pertains.

Mr. COOTE: I thought I understood this morning that Mr. Bevington wished to discuss and finish with each clause one after the other as he went on. For instance, we have discussed the basis of credit this afternoon. I take it the next one you will take up will be the function or the control of credits. You wish to finish with that before you go on to a further clause?

The WITNESS: Yes.

The Committee adjourned until 4 o'clock p.m., April 12, 1923.

THURSDAY, April 12, 1923.

The Select Standing Committee on Banking and Commerce, met at 4 o'clock p.m., Hon. A. K. Maclean, the Chairman, presiding.

Mr. GEORGE BEVINGTON resumed his evidence as follows:—

WITNESS: Yesterday, at the close, or just before the close of our discussion, the question was raised and was not disposed of to the satisfaction of any, as to what money is. I have taken the trouble to prepare a definition of what in my opinion money really is, and have had it typed so that I will commence to-day by giving you that. Money, defined according to statute law, is a legal instrumentality, consisting of denominated monetised paper, or metal coins created by the supreme or sovereign power of the State for the purpose of cancelling legal debts. Second, according to philosophy and social economy, it is a certificate of useful service. Money, in the honest and rightful possession of any citizen, certifies that such citizen has performed useful service to society, or has parted with some of that "social product" known as "wealth," for which he has not received an equivalent in kind; and the equation is completed only, when he parts with those certificates in exchange for such commodities (wealth) or service as he desires for use, in his search for comfort and happiness in the world. I wish it were possible for each man and woman in the world, familiar with the English language, to read and analyze the above definition (or dual definition) and then sit down and write a better one and mail the better one to me.

The next division of the subject that we will take up now is "what is the function of credit". The function of credit is to establish and maintain production and distribution at its highest degree of efficiency for the promotion of human well-being. It is desirable therefore (a) that all producing units in the nation should have access to the use of credit at any and all times as their assets shall warrant; and (b) that interest rates should be kept as low as possible consistent with the cost of service. We have, in our other sittings, covered this point to some extent. It was almost impossible to keep from over-lapping. I will not deal with it at great length under this heading. I would like to submit this paper for purposes of the record and reference for use in case members of the House would wish the reference. This is in regard to what loans and deposits are. This is from text books on banking organizations, management and accounts

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by J. F. Davis, M.A., L.L.B., lecturer on banking at the city of London College. It is perhaps not intended for students of credit. Rather is it meant for the youth whose interest in banking centres on the task of attaining a managership. To him, therefore, the chapter on loans and securities (page 95) is purely technical instruction for operating the system. Students, however, will appreciate the light thrown on the origin of credit.

"The amount of the loan is posted to the debit of the customer's account in the loans ledger, and to his credit in the current accounts ledger". Already, we see, the entry is on both sides, and wherever one entry appears, it must be set off by the other. From page 130 to 132 a complete specimen set of bank accounts is given, from which the student may easily trace that in the final balance sheet the fact of the loan is the banker's asset, and the amount posted to his customer's credit the banker's liability. The new deposit thus created is entirely in excess of all real deposits and has no real monetary basis.

The register of securities deposited by the receiver of the loan is proof of good faith, etc., is not part of the accounts proper. Only in the event of a loan-receiver's inability to repay would it be necessary to realize such securities, in order, for the sake of the banker's solvency, to meet the credits in the accounts of the people to whom the loan has been transferred by the receiver. The banker is aware however, that when borrowers are unable to repay, such securities depreciate and ultimately become unsaleable. Such securities are, therefore, not an asset; they become a forfeit. The bank's only asset is its client's probity, and his ability to recover the credit, represented in the books by the fact of the loan. No money of any kind is ever in question. Nothing is involved but entries in books by bankers, whose willingness to transfer such entries is accepted as a discharge for goods.

In the control and exercise over the use of credit we now find there is a tendency to restrict the use of credit; not only is that tendency to restrict the use of credit on the part of those who would wish to use credit in useful production because of the fact that the banker must at all times be prepared to redeem to his depositors, be prepared to pay his depositors on demand, that is really probably the greatest restriction on the use of credit must be loaned out then on such enterprises, on such securities as made them readily realizable. That is the restrictive use of credit that we find in the present system, also the high interest rates usually charged, also this restricting effect on the use of credit will have the effect of making the use of credit the less profitable to those who use it.

HOW CREDIT SHOULD BE CONTROLLED

Since credit is based on the human and natural resources of a nation, its control must be vested in the supreme governing body, which body may properly delegate its functions to kindred authorities. In all countries where government is carried on through representative assemblies the responsibility of controlling credit must rest indirectly with the representatives.

(a) It follows, therefore, that institutions should be formed to issue credit instruments or money for circulation. The determining factor in the use of these instruments should be the assets of real credit possessed by the person or persons desiring to use them.

Credit then is not directed, as at present controlled, in the best interests of the development of the nation. We find that the primary use of credit is in the production of raw materials, or in primary productions. Unless primary production takes place, there is nothing upon which we are going to exercise our manufacturing plants. Consequently primary production is most essential.

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The next essential use of credit is transportation. Transportation must take place in order that primary productions may be transferred to their place of manufacture, manufacture being a secondary process in production. Consequently the proper use of credit should be directed to primary enterprises, or enterprises producing the raw materials. Transportation comes next. Manufacturing comes third in importance in national development. At the present time in the manner in which credit is controlled, it becomes effective first, for the use of manufacturers and distributors, because of the fact that banks are only privileged under the law to make loans without security on plants, that is, must loan on notes, cannot take a credit direct, cannot take a security at the initial loan. Security may be taken later on as collateral to the loan. The result is that the credit, through deposits, placed in the hands of the system, are available for loan to those institutions that can more readily turn their product into money, making the credit, the mobilized credit of the country more available for Government institutions and for merchants and dealers, than it is for primary production, transportation, manufacturing, the establishment of manufacturing plants. That condition of affairs would not seem to me, at least, to be in the best interests of a nation. This control of credit that we are speaking about at the present time does not cover the use of credit in the forms in which we find it now used by large corporations, municipalities, provincial Governments and Federal Governments, or by Mortgage Companies or such institutions that make long time loans. Yet the use of credit, this financial credit for those institutions, depends upon the willingness or the ability of the banking institutions to buy those bonds or depends on the people private individuals, who have large fortunes to keep invested. This control of credit, as we now find it, directly subordinates all other interests to that institution that has been given a primary control of credit in the banks. We saw in our other meetings, when the Government itself wishes to use the national credit, in the form of a bond, it must first sell that bond to some such institution as banks or transportation companies or some one who has concentrated credit. If they are not willing to purchase, it would be impossible to sell bonds, except in very small quantities to private individuals. Now, having legislated the right to use the mobilized credit of the country in bank deposits and in such ways, into the hands of private institutions, when we sell our bonds, as a people, to those institutions, then by virtue of necessity we have come to the assistance of those institutions in the purchase of bonds and other securities by legislating public credit in the institution, as we found by the chart, by establishing the Treasury Board for that purpose, at least permitting the Treasury Board to accept back bonds and other securities purchased by banks in exchange for Dominion notes or national credit, in order that this credit may go on. It would only seem reasonable that if those securities are acceptable to the Treasury Board and to the people of Canada in exchange for credit instruments in Dominion notes, after those bonds become the property of the financial institution, then it also would seem reasonable and a sound policy to adopt, to take those securities directly from the institution issuing them to the Treasury Board, in exchange for Dominion notes, such as a provincial Government issuing a bond.

By Mr. W. F. Maclean:

Q. Are there no instances of provinces getting advances in this way?—A. Not that I know of. There are no instances that I know of, of municipalities going directly to the Treasury Board. The only instances that I know of are the ones that were cited yesterday, the Grand Trunk Railway and the Canadian Northern Railway.

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Q. Does the Treasury Board by legislation announce it is prepared to do a discounting?—A. I do not think the Treasury Board could make such an announcement. I do not think Parliament has given them any such authority. I think the doing of that was purely by order-in-council. The Treasury Board's duties, I do not think, have been defined by statute. The Finance Act does not say the Treasury Board must accept anything in the way of security.

Q. It has authority to re-discount now?—A. It may, or may not, at the will of the Board. The bond issues of these various Governments or divisions of Governments or industrial concerns are not negotiable, that is, they are not legal tender. They may be negotiable paper in a way as a commercial paper, but they are not a legal tender. They are not a medium of exchange. That being the case, they are of no use unless they can be converted into a medium for exchange. The present control that we now find is that our banking institutions are the only institutions that print those credit instruments, called money, and put them into circulation, with the two exceptions that have already been enumerated. That places both the Federal, Provincial and Municipal Governments entirely at the mercy of those institutions, if they wish to exercise their power. I would not say that ultimate power rested with our banks in this country. They are probably not strong enough to undertake to carry on even if they would in any other way than they are doing. Some of our banks at present, I understand, have extended themselves in their efforts to meet the requirements for credit extension to that point where they are now in a very dangerous position, and it is possible the Government will have to come to their rescue in a very short time, or some other institution will have to be found that is strong enough to take care of them.

The CHAIRMAN: What do you mean exactly by that—that the banks have advanced upon bonds?

WITNESS: Have advanced on securities that possibly are not acceptable to the Treasury Board, and therefore the demands of their depositors are greater than their ability to meet with their present liquid assets.

Mr. W. F. MACLEAN: That is a frozen security then.

WITNESS: But it may be absolutely sound even at that.

Mr. W. F. MACLEAN: Even what the banks have called a frozen security?

WITNESS: Yes. We come now to the fourth division: Is our existing banking system meeting, or able to meet, the credit requirements of the country? Before leaving the third, though, there is something that I would like to place on the records in regard to this credit extension, credit control, and I would like to read this:

"Right Honourable Reginald McKenna, former British Chancellor of the Exchequer, and actively associated with the London, City and Midland Bank, in a recent address at the Cannon Street Hotel, London, spoke on the 'demerits of deflation,' showing how it "decreases purchasing power, and thence prices, and thence profits, and finally the sum total of the nation's income." The effect of this, he pointed out, is to lower commensurably the nation's power to pay its debts, which of course do not shrink in volume.

"Mr. McKenna explained the deflationary consequences of a conversion of Treasury Bills into Treasury Bonds, and attributed the decline in bank deposits to the Government's policy of offering these bonds to the public. This decline, which he supposed would suggest to the uninformed that a large amount of purchasing power had been 'spirited out of existence' had no element of mystery about it, he said: *'It is merely*

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an illustration of the axiom that every bank loan creates a deposit, and every repayment of a loan destroys one.'"

"Lord Milner, a director of the London City and Midland Bank, in a series of articles in the *London Observer* recently expressed highly unorthodox views on the subject of finance. He spoke of fortunes being made by 'the mere manipulation of financial counters', which he characterized as 'interception in the grand style'—interception or interference with the circulating medium, credit, not really the circulating medium as we express it here, as Dominion notes and bank notes, but this bank credit, circulating medium, credit—

"he referred to the difficulty experienced in the presentation of new ideas in economics owing to the fact that 'many of the leading organs of the press are owned by the plutocrats.' He said, further:—

"'The real gravamen of the charge against our present industrial system is not that it involves an unfair distribution of the product, but that it mismanages, misdirects, and therefore unduly limits, production itself.'

"He described the manner in which workingmen responded to the appeal to produce more, in order to restore prosperity, only to be told, a few months afterwards, that his employers 'were choked with goods, and did not need his further services. Then it was explained to him that after the war there was bound to be a big slump, because 'the pool of capital had been depleted,' there was 'no money to make things' and 'nobody else had any money to buy them.'"

The CHAIRMAN: Why do you read these? Are you arguing that the deflation in Canada has been too rapid and has brought about adverse commercial conditions?

WITNESS: I am reading them for the purpose of giving the Committee the opinions of those who are more versed in the technique of banking than we farmers are expected to be, and probably more than we are.

The CHAIRMAN: But Mr. McKenna and Lord Milner were dealing with the question of deflation. Are you presenting the view that deflation is too rapid in Canada?

WITNESS: I think there is no doubt at all about that, that that has very very materially affected prices, affected the people's ability to pay.

The CHAIRMAN: Do you think it is wrong policy for the Government or the banks to deflate so much?—A. I think it was a very mistaken policy.

The CHAIRMAN: What are your reasons?

The WITNESS: The effect that it has had upon production.

The CHAIRMAN: How did this deflation take place? What was the process in Canada?—A. I did not propose just now to take up that particular part of the question, as Mr. East here, who will come on again, has some charts prepared and will deal particularly with that subject.

The CHAIRMAN: All right.

The WITNESS: The fact, under heading 4, paragraph (b) that banks are not permitted to take securities for loans is one of the very great reasons probably why they are not able to make further loan extensions than they have done at certain times. No doubt they have gone farther maybe sometimes than they should, or having gone as far as they did they should have continued at least their extensions of credit for a considerable time, long enough at least for a gradual adjustment, and a gradual turning over of stocks of goods again into cash with which to meet previous borrowings. The result of too rapid a

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process of deflation had the effect of reducing prices, throwing tremendous volumes of goods on to a market that was depleted of purchasing power, with the result that very little paying ability was left in the hands of the borrower. Now, if the banks had been permitted to take a security and had been assured of a place of re-discount again for those securities, there would have been no logical reason or no reason why deflation should have progressed at the rate it did progress.

Mr. HUGHES: The witness is saying banks are not allowed to take security for loans; they are doing it every day.

The WITNESS: Under the Act they are not permitted to loan against a security. Having made a loan without a security, they may take security then as collateral to the note.

The CHAIRMAN: You are talking about real estate.

Sir HENRY DRAYTON: They take security every day.

Mr. HUGHES: They take security every hour.

The WITNESS: Yes, but not real estate security or chattel mortgage.

The CHAIRMAN: But they take security, is the point Mr. Hughes raised.

Mr. HUGHES: They loan on bills of lading and warehouse receipts, bonds and stocks.

WITNESS: Yes.

The CHAIRMAN: And real estate as a matter of fact frequently in the form of bonds.

The WITNESS: The loans that are made by banks to commercial houses against goods that are in transit are not the loans that ever put banks into difficulty.

Mr. HUGHES: It is a good reason why they make advances of that kind.

The WITNESS: That is the reason why our institution, as at present organized, has been doing its business along those lines more than on the lines to meet the requirements of producers.

Mr. IRVINE: You are speaking of long term loans.

The WITNESS: Yes, we have not a properly organized system for meeting the legitimate requirements of producers.

Mr. MORIN: If the banks had been allowed to make loans on mortgages, don't you think they might have put the whole of their reserve there, and that there would be nothing left for trade?

The WITNESS: The chances are they might have diverted too much in that direction—

Mr. W. F. MACLEAN: You want some other institution—

The WITNESS: I have a booklet here issued by Sir Edmund Walker that is very interesting; I am going to trouble you with going through this. I have gone through it very carefully and marked a very great number of passages in it that I think should be dealt with, but we shall probably get to that at some other time of the investigation, and I won't take up your time with it this afternoon. We come now to the fifth part of the statement: What steps may be taken to remedy the existing defects or inadequacies of our system so that production and distribution may be carried on to the highest efficiency for the furtherance of human well being? The answer given there is, the establishment of an elastic federal loan department with provincial government agencies to deal via local organizations, directly with the people; this department functioning as a holder of securities against which advances of Dominion notes have been made.

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In undertaking to quote to this Committee this proposition I want first to state that this is only a proposition. I am not presenting this proposition as the only proposition—there may be very many others—but I am presenting it in this hope that it will assist the members of the Government and this Committee also in devising some kind of an institution that will meet the requirements of the country that I think most everybody feels quite positively are not now being met.

Mr. W. F. MACLEAN: Those words "provincial government" you do not apply that to the provincial governments?

The WITNESS: That is what I mean.

Mr. W. F. MACLEAN: Oh, you mean the agency of the government in the province?

The WITNESS: No, I mean the government in that particular instance as I state there.

Mr. W. F. MACLEAN: Of the provincial governments?

WITNESS: Yes, the establishment of an elastic federal loan department with provincial government agencies to deal via local organization directly with the people.

By the Chairman:

Q. You propose to elaborate that point and make it clear?—A. Yes. The Federal Government at the present time is taking all kinds of securities in exchange for Dominion notes for circulation. The banks at the present time are using those advances to the people—

Q. When you say all kinds of securities, do you mean that in that general way?—A. Pretty nearly as general as that.

By Mr. W. F. Maclean:

Q. They can put up blocks of notes they hold?—A. I gave there a list of securities that the Finance Minister says they are dealing with, and that covers notes, bills of exchange, grain receipts, all kinds of bond issues, and so forth; I don't know what more could be included.

By the Chairman:

Q. The ordinary industrial securities would not likely be taken as collateral under the Finance Act?—A. They are, according to the statement.

Q. What I mean is your statement is so general that it might leave the impression upon the members of the committee that the Finance Department would take almost any kind of security.

Mr. IRVINE: Would you state specifically some of the securities you know they do not take, and then we might be able to make the elimination that way?

The CHAIRMAN: That would take too long.

The WITNESS: I will make my statement as general as this statement is made here by the Finance Minister. If I have been too general I will confine it to what is contained here.

The CHAIRMAN: Do not read it.

Mr. IRVINE: Yes, read it.

The WITNESS: "The Treasury Board have received securities including the following: Dominion of Canada bonds, Treasury Bills, bonds of the provinces of Canada, and Canadian municipalities, British Government Treasury Bills, Canadian Northern Railway Company notes, certain industrial bonds and stocks, assignments of grain and produce, and demand notes of commercial houses endorsed by the banks to the order of the Minister of Finance."

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The CHAIRMAN: That is pretty limited after all.

The WITNESS: It says including those.

The CHAIRMAN: That is first class securities; that is all I meant to imply by my interruption—quite limited from that definition. Proceed, however.

The WITNESS: I am labouring under the assumption that it is at the discretion of the Treasury Board what they take and what they do not take. If I am wrong in that then I stand corrected. We have at the present time a Bank Act that permits men to organize themselves, or individuals to organize themselves into a bank by complying with certain requirements; I would propose that after the federal loan department was established the Dominion Government would continue granting bank charters under the Act, but that the duties of the Treasury Board be defined, the classes of securities that it might deal in be defined by Parliament, the amount of advance of Dominion notes that they would make against the deposit of such securities, that is the percentage as against the volume of securities deposited be defined, that the provincial governments undertake to secure under the terms and conditions of the Bank Act federal bank charters, that the provincial governments appoint a Board of Directors the same as is now elected by the shareholders of banks, that the provincial governments buy the necessary stock under the terms of the Bank Act as it now exists.

By Mr. Hanson:

Q. Where would the Province of Alberta get the money?—A. They are not altogether broken so far as money is concerned; but maybe we had better go back and see how much money they actually require to start a bank, to see whether this would be too great a strain. The Bank Act says that any institution organizing must sell \$500,000 of stock, \$250,000 of which must be paid into the Treasury Board in cash, that is the minimum amount. Sir Edmund Walker says that this is only a temporary deposit, and it is perfectly right; the Bank Act stipulates that it is only a temporary deposit, that so soon as they have complied with the requirements of the law and made application for a certificate to do business, that all the money so deposited with the Treasury with the exception of \$5,000 be returned to the bank as then organized; at the first of June of every year following they must deposit in a fund an amount equalling 5 per cent of their average note circulation as a guarantee fund for their circulating notes, participated in this guarantee fund by all the banks. That is the amount of money actually required by any institution to start a bank, a sufficient amount to comply with the terms of the Act. They deposit \$5,000 with the Treasury Board, the balance they have themselves. Now, in the case of the province, as I have just proposed that the province become the shareholder in the institution, the province would still have in its possession all of the money that was invested in the bank stock with the exception of the \$5,000 left with the government, and it would have the privilege of issuing its notes to that amount as a chartered bank, the province simply as a province taking the place of the shareholders of the present institution.

By the Chairman:

Q. What would you name this supposititious bank, using the word "Alberta" say?—A. You could call it any kind of a bank you liked.

Q. The Alberta Federal—do you include the word "Federal" in it to show it is a national or government institution?—A. If it was called "The Dominion Bank of Alberta," that seems to me would be a very appropriate name.

Mr. W. F. MACLEAN: Except Dominion has been appropriated by a bank in Toronto.

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WITNESS: But not the Dominion Bank of Alberta.

By Mr. Stevens:

Q. What is to hinder Alberta, Manitoba, or Ontario doing that now?—A. Nothing.

Q. That is put forward as a new proposition; if there is nothing to hinder doing it now—

The CHAIRMAN: The province has no power.

Mr. STEVENS: Under the Bank Act there is no legislation preventing them from doing it.

Mr. W. F. MACLEAN: It has not been generally known; I know it was put to an Attorney-General of a province within two weeks and he was surprised that the right existed, and he said he was going to look into the Act.

The CHAIRMAN: That is a provincial government could become a shareholder in a bank, but there is grave doubt as to whether they could carry on a banking business; for instance the Government of Ontario receives money on deposit.

Mr. W. F. MACLEAN: They could do it under Dominion Charter; it would have to delegate to two trustees named—

Mr. IRVINE: I think we had better allow Mr. Bevington to finish his statement.

WITNESS: If the province wished to do this the province could find the necessary amount of money. It only requires five persons to act as a provisional Board of Directors in making application for a charter organizing the institution. It would only mean that the provisional Board would sell shares to the province instead of to the public. Now, having gone that far and organized the institution to that extent it is only a matter of operation then, it is only a matter of the details of operation of the system. The Treasury Board if properly organized is ready to function, the bank in the province is ready to function; but it does not mean that the province after having done this, or the institution organized in the province, would necessarily go out and establish a thousand branches; it would not be necessary that they even establish a branch at all; I would not suggest that, but I would suggest this, that if that was being done credit societies, agricultural credit societies, call them that if you like, or any kind of a co-operative credit society—better call it a co-operative credit society probably—

Mr. SPENCER: You need not limit it to agriculture.

WITNESS: No, call them any kind of society, or call it agricultural credit society, or you might have different credit societies under different names, organized as local units for the purpose of extending credits, those local units requiring their members to put up as a guarantee a certain amount, simply as a guarantee, a certain amount of property in this local institution that would be incorporated, having a legal status.

By Mr. W. F. Maclean:

Q. Is that not more like the Act recently passed in the United States Congress?—A. I will deal with these other things after I have finished the statement, if you will permit. These local units then have a capital asset of their own, and they have that legal status of their own, they are right in touch with the people who wish to get credit extension, know intimately their affairs, are right on the ground to examine the conditions every day; they have a collective security there which they can offer to the provincial unit of the system in

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exchange for notes with which to make loan extensions, call them the bank notes of this provincial unit if you like, because they would have the right of issuing such instruments, they would pass them out to this local unit that stood by itself as a separate entity dealing with the people, only working in harmony. The provincial institution when it found itself in possession of a considerable quantity of paper securities and requiring more use of credit than they were able to supply with their provincial bank unit would be privileged to take those securities, such of them as were acceptable, to the Treasury Board under the conditions laid down, and rediscount them for Federal Notes, obviating any possibility of a loan being made at one place, in one of those institutions, at any time that they would not be able to meet; and meeting the requirements for credit, also meeting the requirements of distribution. Now, we have very very briefly outlined what seems to me would be either a feasible proposition laid down in just those lines, or what probably might be improved upon in details to make it more workable, and would I believe be of very great benefit in the extension of credit in this country.

By the Chairman:

Q. Would the notes issued be Dominion Government notes?—A. The notes issued by this provincial unit would be exactly the same kind of notes issued by any other kind of a bank, because it is under the same bank charter.

Q. Would there be any gold behind it?—A. Just what is behind the present system; I am not thinking of changing that.

Mr. W. F. MACLEAN: It has practically a national reserve fund like they have in the States.

The WITNESS: It would not require one word changed in the present Bank Act to establish it.

By Mr. Stevens:

Q. Would not your Provincial institution or bank give the same amount of credit?—A. It would but if the Treasury Board would not rediscount paper it would be limited if it did not loan on the right kind of security, because it could not re-discount.

Q. Where would the limit be in your mind?—A. To my mind the limit would be the asset that the individual who wished to borrow was able to put up as a guarantee that he would repay.

By the Chairman:

Q. Every loan therefore would be supported by some security?—A. By a national asset on a margin of security.

By Mr. Morin:

Q. Would it not considerably increase the currency?—A. That would depend upon to what extent it was used.

By the Chairman:

Q. Very briefly, what are the advantages in this system over the present system?—A. The decentralization of control, the use of deposits in a local unit for that unit, which accumulate in that unit, the reduction of interest rates to the lowest charge consistent with efficient operation and safety.

By Mr. Clark:

Q. How did the deposits in Alberta compare with the loans?—A. I could not just say off-hand, but under the inflation process that went on, our deposits were just about equal to our loans all the time. Under the deflation process it is somewhat different.

[Mr. G. Bevington.]

By Mr. Good:

Q. Are they lesser or greater?—A. The deposits should be greater. I have not the figures to show whether they are or not at the present time. These figures for provinces in this connection cannot very easily be obtained. The banks themselves are in possession of that information, and they are private institutions that the outside world is not privileged to examine, and there are no records that I know of that are public records. Anything that I might state in that connection is purely an estimate.

By Mr. Spencer:

Q. Is it not a rule that during deflation periods the deposits would increase?—A. I beg your pardon?

Q. Is it not a rule, according to your argument, that during deflation periods deposits would increase?—A. That happens under our present system. Under the system the table will show that at a time of credit expansion loans exceed deposits, according to the statements of the banks themselves. In a time of deflation, deposits exceed loans.

By Mr. Good:

Q. What do you figure would be the saving in the interest rate. Have you any opinion to offer on that?—A. We have some figures in the Commonwealth Bank of Australia that give some indications. There are other figures available in other institutions that give a very accurate indication as to what the saving would be. Remember, the Commonwealth Bank of Australia had no share capital for a long time, had no privileges of note issue, was dependent entirely upon deposits and they paid a fairly liberal rate of interest for those deposits, up to $3\frac{1}{2}$ per cent. Now they loaned it at from 5 to 6 per cent, not more than that. They have established 63 branches in ten years, have accumulated a profit of £19,000,000, after having paid all of their operating expenses on an average margin of 2 per cent between what they paid for their deposits and what they received for their loans.

By the Chairman:

Q. That bank does not do a commercial business. It would be no good to us in Canada, nor to the people you have in mind. They do not take any risks; they do not serve anybody. They deal in such large transactions that the percentage on management is very low.—A. A bank such as I have been describing would have the privilege of dealing in everything, and further it would have the privilege of dealing in long term loans, or what is called "debenture loans."

By Mr. Stevens:

Q. Are you aware that the Commonwealth Bank deals only in the highest class of securities and not in the securities you are speaking of?—A. I am not aware of the fact.

Q. That is so. A reference to the annual balance sheet will show that. They take no risks whatever.

The CHAIRMAN: Mr. Stevens, about 12 per cent of their business is the ordinary commercial business.

Mr. STEVENS: A comparatively small amount of it. Most of it is highly secured business, Government business, the very best business of Australia, and exchange. It has no relation to what might be called "rural credit loans" at all.

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By Sir Henry Drayton:

Q. Your idea is, I suppose, a little advanced on the rural credit system. You want to loan the people, the municipality or the district. That is not the present idea?—A. No.

Q. But you do give one idea in connection with it, and that is that the institution through the functioning of a provincial bank shall be put in position to deal just the same as any incorporated bank?—A. Exactly.

Q. You would not approve your security over what you had in connection with other loans, but you would have the same ready flow of money. That is your idea?—A. That is the idea. A person can imagine, if they wish to study the subject, all kinds of ways in which it would function more as a service institution than the present institution is functioning. To undertake to say how it would function or could function necessarily must be left when the institution is in operation. It could operate as the present system is operating. It could operate by co-operating with any kind of a credit society that would organize itself and put itself in a position that its security would be acceptable to the central institution or the provincial unit, or acceptable to the Federal institution.

Q. I think there was another thing you had in mind, that is that this concern could handle long time business?—A. Yes.

Q. Because it would not be dependent upon deposits?—A. It would have always the opportunity of going to the national credit, that is, the central unit for a rediscount.

Q. Your idea rather was that this concern, instead of carrying on business in the way our banks carry on, that this concern would be the depository of securities for people who needed the money and would rediscount this with the Federal Board, getting the money in that way.—A. Are you speaking of the local unit?

Q. I am speaking of the Interprovincial Bank. Now, I thought from what you said that your idea was this, that your provincial bank, which may be in the first instance dealing with the borrower, that bank, instead of lending deposits, which would be called for the next day, would take from that borrower his real securities, deposit them with the Treasury Board here and get advances against them.—A. They might do that or they might be limited, do you understand, in the doing of that? That is the general idea, and that is the basic idea. As to the matter of details, that would be simply a matter to be worked out, as was considered safe, and also as to what would give the greatest measure of service.

Mr. Good: Might I ask a question?

The CHAIRMAN: Yes.

By Mr. Good:

Q. You spoke a little while ago about the harm which rapid deflation would cause to the country. Now, it is possible that the banks were not able to avoid that. If that is so, if it were not brought on deliberately by the banks, if they were required to do it in the circumstances in which they existed, how would this other system make it easier to control the deflation or price changes?—A. If an institution were set up as I described, the asset of the borrower, that he had to offer for the loan would be the controlling factor in the use of credit. Consequently as long as people's necessity required money in circulation and the asset was sufficient, there could be no deflation.

[Mr. G. Bevington.]

By Sir Henry Drayton:

Q. Deflation comes when the asset shrinks. It does not come through any Bank Act or anything else. If the security shrinks, Mr. Bevington wants to see the institution prepared.

By Mr. Good:

Q. I do not think this matter has been cleared up, not at least to my satisfaction. Supposing we grant that the deflation is caused by a shrinkage in the value of the securities. Now, is it possible for a people to control the value of their securities? Is not the value dependent to a large extent upon world conditions? If so, how far could such a bank as you propose, such a system in view of world conditions, affect the value of the securities.

Sir HENRY DRAYTON: It is a time loan.

By Mr. Good:

Q. I would like some information on this point if Mr. Bevington can give it?—A. I hesitated all the way in giving my statement to this Committee to give this proposition, because I was satisfied that as soon as it was given there would be just what is happening now. We could not consider it on any point by itself, and I would like to get through with the statement and take it up in all its phases.

Mr. GOOD: I will suspend my question.

Mr. LADNER: I do not know what part of the superstructure the witness was at, whether at the top or the bottom.

The WITNESS: I had other things in mind in making this proposition as well as the decentralization of control, and the control of the volume of circulating medium being at the option of the borrower, rather than at the option of the lender. We have a very great deal of talk throughout the country, whether it is justified or not—we hear a great deal at least—whenever any proposal of Government institutions is made, that politics will control, and we must not allow the politicians to do anything in the way of business or the business will be a failure, and the politician a success, I presume. Now, if we would take and consider this proposition from that angle—the politicians in the Federal Government to-day do not have a very great deal to do with the handling of affairs in banks; at least, we do not hear very much about it, if they do have. This proposal is that we establish banks on exactly the same principle as they are now established, under the Federal Act, making those who are in charge of the institutions directly responsible to the Government for any violation of the Act, and personally responsible; so that the Provincial Government, being a shareholder only, could only direct the directors in so far as the directors of the present institution can direct their directors, and they could not very well interfere with the operation of the institution, because the board of directors would be liable to this central Government for their actions.

By Mr. Vien:

Q. Has not the Treasury Board, according to your system, the last final say in respect of discounts, the collateral securities that are offered?—A. It has at the present time, but it does seem to me Parliament can lay out the rules under which the Board shall act.

Q. I mean under the system you propose?—A. It would not necessarily have the power to refuse such classes of credits as Parliament had required them to accept.

Q. They would be obliged to accept?—A. It is in the hands of Parliament to decide. It is not for me, I do not think, nor anybody else, to undertake to tell

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Parliament what it shall decide, but I do submit the power does rest in the members to decide.

Q. Did you submit to this Committee a plan? I ask you whether your suggestion is that once determined and defined, securities which can be discounted by the Treasury Board would have to be accepted, whether a Treasury Board can accept them or refuse them?—A. That would have to be whatever Parliament had decided should be accepted; they would have to accept them.

By Mr. Stevens:

Q. To any quantity?—A. That again, is a matter of decision, not for me to say.

Q. That is the crux of the whole business.—A. I am not undertaking to fix the details. I am proposing a plan only.

By the Chairman:

Q. You have given us your plan. There is nothing more to say about it?—A. There is considerably more I want to say in regard to the plan. The Provincial Government, as a Government, being a shareholder in the provincial unit, would not have but very little control over credit extension within the province or without, for that matter, within the territory which this unit served anyway, if they undertook by act of Provincial Legislature to permit certain kinds of agricultural credit societies or co-operative credit societies within the towns, or any other kind of units that would organize themselves under acts provided by the Provincial Government into credit units, having a legal status, with something invested in that unit, a separate entity entirely from the provincial unit, only taking from those units certain classes of securities that the provincial unit might decide to be acceptable to them in exchange, that would leave the provincial unit in the safest possible position, free from political influence, also free from the possibility of having to collect loans or bad debts and the like of that from individuals themselves to which loans had been made. The local unit would take care of that, and it would be assured of a place where it could take securities and exchange those securities for money or to make new loans and credit extensions. Having a number of members, who would have something invested in the local unit, and therefore something at stake in the local unit, a careful scrutiny would be made of all the securities offered in exchange for loans. Further than that it would have this further advantage in the extension of credit, if there was a worthy person in the community, that this local body was quite satisfied was a good moral asset or moral risk, they have it in their power, because it is their own business, to extend that particular person a certain amount of credit, and just as that person will develop by the use of that credit, he will have a continual further borrowing power. That is a means by which all people in every community who will conduct themselves on proper lines, show themselves to be worthy citizens, can be helped to be useful citizens.

By Mr. Stevens:

Q. Would the local unit pass on all the securities?—A. That is up to the local unit. It is their business.

Q. Mr. Bevington, would you accept local unit decisions?—A. Take it this way, when they loan to an individual, that security, plus the security behind the local credit, is what they would use when they would go to the provincial unit for an extension of credit. If the provincial unit coming to the Federal unit with securities, offering them in exchange for Dominion notes, deposit those securities plus the obligation of the provincial unit, which also has a taxing power behind it—

[Mr. G. Bevington.]

Q. Would you say endorsing?—A. In exactly the same way banks endorse securities now to the Treasury Board.

There is one more point I wish to take up now before closing. In the last session of the United States Congress, they passed an Act authorizing 12 banks to be opened in the United States, new institutions. They have authorized treasury notes to buy \$60,000,000 of stock in those 12 local units with \$5,000,000 paid-up capital in each one, to start them off. They have further authorized an issue of treasury bonds, upon which treasury notes shall be issued that will be available to those 12 banks in exchange for securities at cost. This is undertaking to extend credit to the people, farmers particularly, over the United States, for the purpose of carrying on the basic industry of the country.

By Mr. W. F. Maclean:

Q. And make long distance loans?—A. There is just one point I wish to take up in connection with this service charge made on a 34-year amortization proposition on a 5½ per cent interest basis.

By Mr. Vien:

Q. How many years?—A. 34 years. 5½ per cent basis of interest and amortise the loan at the end of that period.

By the Chairman:

Q. That is a land loan, a loan secured by mortgage?—A. I am not familiar with the details, because they have not set up their institution yet, but we have sent people there to inquire into it.

Q. You do not mean to say that they would make an ordinary commercial loan from this bank and let it run 34 years?—A. I have not noted, but they are making amortisation loans, and I have never known any such loans to be made on commercial security. I have never known them to be made on anything else but land. A loan extended on that basis to a borrower in the United States, at the end of the term of years, would cost him, to clear off the loan, pay the interest and all, \$1,870.

By Mr. Good:

Q. For \$1,000?—A. For a thousand dollar loan, in final payment. A loan made at 8 per cent, under our system, on the security of farm lands in this country, and by the way, we are paying 9 per cent in the west, besides very very heavy expenses in connection with the granting of the loan, but figured on a basis of 8 per cent for 34 years, will cost the Canadian borrower \$3,720, if my memory serves me right on the figures. I am not but a little out, if I am out at all. The difference between the two loans is within \$20 of being 100 per cent difference in the actual final payment of the loan; is within \$20 of being 100 per cent difference in favour of the American farmer. What we must consider, to my mind, is this fact, that for the sale of our commodities, our surplus agricultural commodities at least, we are dependent upon the very same world markets as the people of the United States. How are we, under our credit conditions, then going to be able to compete with them in price in the world market?

By Mr. W. F. Maclean:

Q. Will not the American have that advantage over the Canadian farmer under this Act?—A. He will get his credit extended at one half the cost of the Canadian farmer, yet we have to compete in the same market with our produce that he has to compete in. At the present time farming in this country is very unprofitable in the west. I would not say whether that applies in the east or

[Mr. G. Bevington.]

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not, but in the west it is very unprofitable. What is our condition going to be in a very short time, if we have to meet a further competition such as that will bring to bear?

Q. Go into the union.

By the Chairman:

Q. What class of people in the west are unable to secure a reasonable amount of credit?—A. I would not like now to state that.

By Mr. Irvine:

Q. You are not dealing with the amount of credit received. You are dealing with the price charged for it now?—A. Yes. I would say that all of the people are having a great pressure put upon them by the banks to repay their loans.

By Mr. Stevens:

Q. In connection with your proposition No. 5, would you enlighten me as to how or what relation the American system has to this one you are advocating here?—A. Well, in the first instance, the bank stock is owned by the Treasury and will remain so owned, under the Act, perpetually. There is no share-capital, no individual interest to serve other than that of the common good, the service the institution can render. The next matter is the Treasury itself has now authorized the issuing of \$600,000,000 worth of interest-bearing bonds, upon which the Dominion notes will be issued for the purpose of loan extensions.

By Mr. Irvine:

Q. You mean Federal notes?—A. Federal. Did I say "Dominion"? Take an Irishman as he means, not as he says, all the time. The proposed plan here is not the same as that. It is somewhat different, yet in effect would probably work out in the same way. We have our particular conditions to meet at the present time. The existing conditions in our own country are somewhat different. We have our Bank Act on the statute book. We have our Treasury Board organized, doing a certain sort of business and so on. All that we require is to define the duties of that Board, then call into use the credit instrument or Dominion note as necessity in the country requires it, through the establishment of the provincial and the local unit to meet the requirements of the people. Now, there is a little difference in that, in the organization, but no particular difference in the effect.

Mr. W. F. MACLEAN: Would you let me read this? It is "An Act to provide for the incorporation and supervision of corporations formed for the purpose of making agricultural and live stock loans; to amend the Federal Farm Loan Act; to extend and stabilize the market for United States Bonds and other securities; to provide fiscal agents for the United States, and for other purposes." The United States is going to appoint fiscal agents all over the States to do this work on the credit of the United States, for the relief of farmers of the United States, and to make them better competitors of the farmers of Canada under this new Act.

Mr. GOOD: I propose to ask a question which was left over at Mr. Bevington's request; I wanted to find out from him how this proposed system would render us less liable to the injury from inflation and deflation. I think we all recognize the injury which the country suffers from these great price changes, and I wanted to find out how far he thought such a proposal would assist us in overcoming those difficulties.

[Mr. G. Bevington.]

The WITNESS: It seems to me it would be a real stabilizer; it would neither inflate unduly, and neither would it deflate unduly; simply because of the fact that loan extensions would always be covered by an asset with a margin of safety; that would have a regulating influence. Inflation as we saw it in these past years took place simply because credit extensions were made almost indiscriminately. As I said before I do not want, I am not prepared to go into that in detail, because I understand Mr. East proposes to do so; therefore I have not prepared any detailed information on that particular subject.

By Mr. Ladner:

Q. You perhaps are acquainted with the report of Professor McGibbon—I have the full report here. It appears he made a very thorough investigation in Alberta as to the advisability and practicability of starting a provincial bank, giving his finding, and I will state his finding in order that you may differentiate your scheme from that.—A. He made an investigation into the feasibility of a provincial bank in Alberta?

Q. Yes, D. A. McGibbon, and he states:

“Dealing with the inadvisability of creating provincial banks, the report quotes statistics from five Calgary bank superintendents, showing that approximate percentage of savings bank deposits of farmers to the total of such accounts at rural branch banks in Alberta, is fifty-two per cent and is only twenty-four per cent of such savings at all branches of the banks in Alberta.

“The report points out that the chartered banks would probably retain two-thirds of these deposits, together with the bulk of the mercantile business, so that a provincial bank would, for some years, only get the less valuable end of the business. Not only would a provincial bank be unable to secure large sums in local deposits but it would be unable to draw on other parts of Canada to finance local loans, and to handle business in times of local depression.”

He concludes in a general way, strongly condemning the idea of provincial banks; what would you say about that finding?—A. Have you examined the evidence before Professor McGibbon yourself?

Q. Yes; I have the report here; his report, not the evidence that he heard?—A. Well, his report as given—

Q. It is here?—A. I also have a copy of it; you will find on examination of the report that the investigation was an investigation made by Dr. McGibbon not into the feasibility of establishing a provincial bank at all, there is not one word of evidence spoken by anybody in the whole of the evidence on that proposition, not one word; I know from personal experience that in four particular instances at places where the sittings were held, men wanted to give such evidence and he refused to take it.

By Mr. Good:

Q. On what grounds?—A. No grounds stated, simply refused to take it—did not come within the scope of the inquiry.

By the Chairman:

Q. How long is that report?—A. A long report.

The CHAIRMAN: I inquired that for the purpose of suggesting to the committee the advisability of printing that report in our proceedings so as to make it available to everybody.

WITNESS: In the beginning of the report the powers of the commission are stated, and if you will read that short paragraph to the committee you will find

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Dr. McGibbon was given no authority to go into the question of the feasibility of provincial banks, and the statements made by him are his personal opinion.

The CHAIRMAN: Would the committee like that report to be published in our proceedings as an Appendix?

Mr. W. F. MACLEAN: If you are publishing this thing I would like you to send to the Printer of the United States and get one hundred copies of this Act for the use of the Committee, and they will be only too pleased to give it to you. I move that the Chairman be authorized to send and get enough copies for the Members of the House, three hundred.

Mr. CALDWELL: I second the motion.

The WITNESS: The report referred to, I have a copy of it, and it takes 103 pages in typewriting.

Mr. IRVINE: The point is that the opinion of Dr. McGibbon on the provincial banks is just the opinion of an ordinary gentleman; there is no evidence taken regarding the matter.

WITNESS: There is not one word of evidence in the report; there was not one word of evidence taken in any inquiry with regard to the feasibility of a provincial bank.

Mr. STEVENS: Was he not a competent man?

A. He was not given instructions to inquire into that at all; he was to inquire into the present conduct of banks in that province.

Mr. HANSON: I rather challenge this statement. In the introductory part it states what the scope of the proposed inquiry was:

1. To examine into the operations of The Banking Act as it bears upon the farming industry of Alberta with a view to revising any existing difficulties or grievances which might be remedied at the decennial revision of The Banking Act next year;

2. To explore the actual difficulties which farmers suffer on account of lack of credit facilities;

3. To examine the conditions under which long term loans are made with a view to improving the facilities for the extension of this form of credit;

4. Other matters which may appear relevant to the investigation.

Now, under those four headings he draws certain conclusions against the establishment of a provincial bank, and therefore he must have felt, and I think he quite properly felt, that it was in the purview of this commission that he should investigate this very matter.

Mr. SPENCER: Did you not say that Dr. McGibbon refused to take evidence in regard to this matter?

The CHAIRMAN: I don't believe it is advisable—

Mr. STEVENS: Was he appointed under the Provincial Government?

WITNESS: Yes.

The CHAIRMAN: The motion is that the report of Dr. McGibbon be published in our proceedings. It represents the labour and efforts of a qualified gentleman, I presume, who investigated into the workings of our Bank Act, and it would be well for us to have that. You that are in favour of the idea that the report of Dr. McGibbon be printed in our proceedings—

Mr. GOOD: The whole of the report?

Mr. LADNER: I have in my room reports and papers, and if we are going, every time one comes up, to stick these into our proceedings we will have to take private cars to take them away from the Buildings.

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The CHAIRMAN: We will not stick everything into the proceedings.

Mr. LADNER: I believe the point of one of the gentlemen here was well taken. This is a finding of a commission; the way to deal with that in committee is to take the essentials from the point of view of the witness and give it to the committee; to print the whole report would make it too cumbersome.

Mr. CALDWELL: I would say that some one member of this committee select a paragraph from this report and submit it to this committee, I will object to that; if we want any of it we want all.

Mr. MITCHELL: Was not the question submitted the other day as to whether we could not examine Dr. McGibbon, and would it not be proper when Dr. McGibbon comes that that question should be taken up.

The CHAIRMAN: Yes; I had forgotten that.

Mr. MALCOLM: I don't think that this committee is authorized to investigate the advisability of provincial government banks; we are to investigate the working of The Bank Act.

The CHAIRMAN: Mr. McGibbon I presume dealt with that.

Mr. MALCOLM: The order of reference does not discuss the establishment of national banks.

The CHAIRMAN: He must have dealt with the Canadian banking system which we are considering.

Mr. MALCOLM: The order of reference does not give this committee the right to recommend any National Bank.

Mr. GOOD: Mr. Malcolm seems to be unaware of the proceedings of this committee. We had a discussion as to Mr. Irvine's resolution, and we understand this committee is now considering the reference which is made to it, which is altogether separate from the revision of the Bank Act; I think that is the understanding of 90 per cent here.

The CHAIRMAN: Mr. Mitchell's suggestion is very practical indeed, and I think might well be adopted, as long as Mr. McGibbon is coming.

Mr. HANSON: It has not been decided to call Mr. McGibbon.

The CHAIRMAN: Yes.

Mr. MITCHELL: His name was suggested, and we had practically decided on his name on the sub-committee, but it was later on decided not to report his name until the next meeting; we intended as a matter of fact to suggest four or five other names that were suggested to us, but we thought at the time being the seven names we suggested were sufficient.

By Mr. Stevens:

Q. Referring to the new rural bank proposal of the United States Congress, Mr. Bevington mentioned that they were issuing six hundred million dollars of Federal Bonds to form the basis of the credit extended by the American banks; those bonds would be secured gold bonds, would they not, American Government gold bonds?—A. I presume they would be, yes.

Q. In other words this new scheme of the American Congress is based upon a gold basis?

Mr. IRVINE: No.

By Mr. Stevens:

Q. It is absolutely vital to the whole question, and I want to be accurate; am I not correct in that?—A. I don't know just what you are asking.

[Mr. G. Bevington.]

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Q. The issue of six hundred million dollars of American bonds referred to by you in your evidence as being the basis of credit to be extended to the farmers and others in the United States under the new Bank Act, are American Government gold bonds, that is right is it not?—A. I think so.

Q. What I wish to ask you is this, that under your proposal and according to your evidence, the security for the loans will be the assets advanced by the borrower?—A. Yes.

Q. In other words your proposal of your banking system will be based upon the securities held by borrowers, whereas the American proposal as quoted by you is based upon United States gold bonds or gold securities; am I right or wrong?—A. I presume you are right.

Q. That is the point I wanted to make clear, that there is that distinction between the two proposals?—A. I don't think you have made any distinction between the two. Just in reply to the member I would say, if there is a distinction it is one rather of terms than an actual distinction. The Dominion note of Canada is exactly the same thing as the bond of Canada; if the Federal Government of Canada wishes to issue its bond and hand it over to the Treasury Board here, and then issue the note, you would have exactly the same condition as prevails in the United States. There is no reason why the Treasury Board should not do that.

By Mr. Stevens:

Q. If the Dominion Government issue its Dominion notes to which you refer against security, real estate, and so on, such as you have mentioned, general line of security selected by these local organizations, then the Dominion note would not be a gold note, would it?—A. It is not anyway.

Q. Well, it is on a fairly good gold basis; we are trying to get it back to normal gold basis, and it is pretty near there now; but this would be a departure from it?—A. Not any departure from it. I say the Treasury Board here could be authorized to issue the bonds and hold the bonds themselves if they like, on which they would issue the Dominion note, just the same as the transaction in the United States.

Mr. W. F. MACLEAN: Or they could market them if they wanted to?—A. No difference whatever.

Mr. GOOD: I think Mr. Bevington has not caught Mr. Stevens' point.

The CHAIRMAN: Suppose you give him a night to catch him.

Mr. STEVENS: The United States Treasury is possessed of not only sufficient gold normally to support their issue, but more than sufficient, and in Canada the situation is pretty well reversed; we have no more than the normal amount of gold necessary.

Mr. W. F. MACLEAN: Do you say there is enough gold in Washington to cover the entire issue of national bonds?

Mr. STEVENS: More than enough normally, yes.

By Mr. Stevens:

Q. I want to make this clear; you have either got a gold basis for your note issue, or you have a basis which is ordinary security; under the American system they are issuing the bonds on a gold basis, and they have the gold to support those bonds, not necessarily dollar for dollar, because that is never followed, even in British or Canadian or American banking systems, but there is the fixed general normal percentage, I think it is around 20 or 25 per cent; under the system as proposed to-day—and this is the point I make, and my friend will correct me if I am wrong—his scheme would be deprived of the gold basis entirely?—A. No, not at all.

[Mr. G. Bevington.]

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Q. You do not increase the gold deposit in the Dominion Treasury?—A. You can if you want to.

MR. W. F. MACLEAN: Sell the bonds and you can fill it up.

WITNESS: Since last September we have increased the gold supply in Canada sixty-two million dollars. How did we do that?

MR. STEVENS: Will that be limiting the extent of the increase of the note issue? I am not talking about the exact amount, but the normal relation, would you limit your issue to the ability of the Dominion to support these notes with gold?

The CHAIRMAN: We have a statute, and that statute would have to be observed.

WITNESS: I do not suggest changing anything.

MR. STEVENS: It is of very vital importance.

MR. HANSON: It is not necessary to the success of your scheme that there should be a gold basis.—A. It has not anything to do with it.

Q. It is on an entirely different class of credit; do you think you can abolish the gold basis altogether in your scheme?—A. If the Dominion Parliament feels that a gold basis is required, there is nothing to prevent them going on.

The CHAIRMAN: Gentlemen, it is six o'clock. To-morrow we will have up Bill No. 83 at eleven o'clock. We will endeavour to pass the interpretation clause of the Bill, and then proceed to section 88 in order to give a hearing upon that section to the members of the Bradford Chamber of Commerce, who will appear before us. After that, if we finish that particular hearing Mr. Bevington will be available to the Committee, and if we are concluded with him, then Mr. East will be here.

The meeting will adjourn.

The Committee adjourned until Friday, April 13th, at 11 a.m.

FRIDAY, APRIL 13, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, please come to order. Our business this morning is Bill 83.

MR. LADNER: Do you receive notices of motion this morning? I thought they were simply to be filed, but to expedite the matter, as this is a very short one, it is in connection with section 11 of the old Act and of the new Bill, dealing with the provisional directors. I will file it.

The CHAIRMAN: Gentleman, as I explained to you yesterday, the Bradford Chamber of Commerce requested to be heard on certain clauses of the Bill, which request was granted. To-day Mr. Tulloch of that Chamber of Commerce is present, and desires to be heard, and I will call upon Mr. Tulloch to make his statement to the Committee. I might say that we will be very glad indeed to hear him. He has come a very long distance to present his views upon certain phases of our banking law, but it is characteristic of the British business man. He is willing to go anywhere to make himself heard.

MR. H. T. TULLOCH, called and examined.

The WITNESS: Mr. Chairman, and gentlemen, I really am a representative of the Bradford Chamber of Commerce, but I am authorized to speak on behalf of the following Chambers of Commerce: London, Manchester, Nottingham, Leeds, Huddersfield, Halifax and Leicester. These are organized commerce

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boards, more or less what we in England know as the textile trade. The textile trade in England averages about 40 to 50 per cent of the total exports of the United Kingdom. To emphasize these Chambers a little more, and to show you the industry in which they deal, Bradford, Leeds, Huddersfield and Halifax are the centres of the great woollen and worsted industry of England. I am speaking of the raw material and finished product in every case. Manchester, as you are aware, is the centre of the cotton industry. Leicester is a more or less subsidiary branch of both, inasmuch as it makes hosiery and underwear. Leeds was included with Bradford, I should have said, so I speak really for both. I would like it to be distinctly understood, that our experience has been bought and rather dearly bought, with reference to textiles. In starting, I wish to say that the section of the Bank Act which has come under our purview is Section 88, Sub-Section 3, where the bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares and merchandise manufactured by him, or procured by such manufacturer. In addition I shall touch on Clause 86; but before proceeding, just after introducing myself, I would like to express my own personal thanks and the thanks of the English interests—I do not want to confuse British—we are all British, and the thanks of the English interests to you, Mr. Chairman, and to the other members of the Committee for allowing me to present the views of English interests here to-day. I do not want you to think that I am coming over here in any carping or fault-finding spirit. I am here wholly, as far as I possibly can, to point out to you where we feel that we are not quite happy in our trade relations with Canada, and we want to improve our trade relations with Canada. It is mainly in the interest of bettering conditions between the United Kingdom and Canada. That is my main object in coming over here. There is another matter that it is rather difficult for people on this side to realize, that is that we in England do not sell our goods for cash against documents. I want to disabuse the idea from the minds of the people that we get cash against documents. We have to sell on 60 days terms; in many cases longer terms; 60 days from the date of invoice, or 60 days from the date of shipment, but we do not sell cash against documents. At any rate, the textile trade does not. English firms have suffered considerably under Sections 86 to 89 of the old Bank Act. They have suffered very heavy and very considerable losses. I am frank to say that we would like to see them entirely eliminated from the Act, but it is impossible. We know it is impossible. We know that some such provision is necessary, owing to the limited financial resources of Canada. Therefore we do not press to eliminate it, but we tell you what our view is in the matter, we think there is urgent need for the principle of registration to be applied on all loans that are given by banks. I think that such a principle might tend towards more stable affairs than has hitherto existed in Canada. The Hon. W. S. Fielding has introduced this Bill 83, and he has brought forward a new clause or section, Section 88-A in the new Act, which meets our views as regards the principle of registration to a large extent. It does not go so far as we wanted it, but it does meet our views, but it only applies to Section 88 of the Bank Act. We have suffered dearly under Section 86. Eighty six is a section whereby a bank can take a bill of lading as collateral security. We have suffered under that. I will explain a little later the machinations of the traders who are not quite scrupulous, showing how they can to a certain extent, commit fraud. The original intention of Section 86, if I might give you my interpretation of it was, that where a man is shipping goods, he ships goods to Canada and the documents arrive here. The original intention was that when the goods arrive here the bank should make him a loan, and he would hand over to the bank the documents for this shipment. The intention, as I said,

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was that the loan the bank would give him would be for the purpose of paying for the goods, and the security he would give to the bank—that is my interpretation—the money that the bank would give him against this collateral security would be to pay for the goods that had just been shipped on the documents he has handed over. Now, I have read that into it. I have tried to read it into it, and I believe that the original draftsman of this, or the original Minister who introduced this clause had this intention in his mind, but I am afraid that Sub-sections 2 and 3 of Section 89 do away entirely with that, because it gives the bank priority with that, because it gives the bank priority over the unpaid vendor. I was giving you my idea of the original intention of Section 86. I am afraid there were a great number of instances of unscrupulous trading under Clause 86, under the old Act, and as at present constituted, it can happen again. I will give examples later. I do not want to say anything that is hard about anybody or any concern of any description. As I said, I am here in the interests of British trade relations with Canada, but I would just like to make a trade quotation from the bulletin of the Canadian Chamber of Commerce in London. They say “This Chamber is now investigating a very large number of specific instances, of which the Bradford Chamber has made complaints. In some there is no doubt that there has been deliberate fraud.” There is a little more in that Bulletin that does not speak very well of certain things that have happened, but I do not propose to read it, but I will let you have this, and you may read it if you wish, Sir. In the remarks that follow, it is stated that the Bradford people and the English people do not take enough precautions in sending goods to Canada, and they accuse us of doing risky business. The Hon. W. S. Fielding, before the House of Commons, in introducing Bill 83 also made the same remarks. I might be inclined to agree. Still, I will just give you an example of what precautions we took. We made inquiries from the usual inquiry agents, Dunn’s, Bradstreets, etc. We also got the trade references, which we took up. We also made an inquiry through the Bank. In England, if you make an inquiry through the Bank, the Bank will reply on lines something like this: a reference number at the top. “In reply to your letter dated such-an-such date, we have to inform you that we have knowledge of the firm in question, and we believe they are of good repute, without prejudice or responsibility.” This is the reply we get from the English Bank when we ask them for a trade reference. It is very non-committal, I think you will agree. When we ask the Canadian Bank what such-and-such a firm is, we are told they are first-class. Put yourself on the other side of the water, and knowing what the British Bank replies, in a non-committal manner, and then get your reply from the Canadian Bank, you will consider they are first-class. We believe the integrity of the Canadian banks is just as sound as that of the banks in England, and we accepted their word that they were first-class.

By Hon. Mr. Fielding:

Q. Have you made the quotations of what the Canadian banks advise in that case, the words themselves?—A. I have the original cablegram from the British Agent in Canada that was sent after having interviewed the bank.

Q. You have given the words of an English banker in answer to your question. Can you give the words of the Canadian banker under similar conditions?—A. Except they know “they are first-class”.

Q. You are making a comparison between the two methods. If the Canadian banker gives you information which proves to be unreliable, you have a quarrel with the bank, What is the assurance they gave you?—A. The assurance they gave us was that the man’s credit was first-class. I think

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that question can be answered more readily by one or two of the gentlemen who are accompanying me to-day, because they are agents of British firms in Canada, and they can tell you what the replies of the Canadian banks are when they make inquiries.

Q. All right.—A. I do not want to stress this particular point, but the Bank gave a letter of recommendation to a firm, saying it was of good standing. That firm came over to England and bought extensively, and on arrival of the goods in Canada, these goods were hypothecated under Section 86. I cannot see that the letter was of much use if they were of good repute.

Q. That was only by the way?—A. I am sure creditors have made heavy losses in thirty cases that I am personally aware of. On the other side, they are not quite so frank in giving you information. They keep their business to themselves. I have one or two typical examples of statements of affairs. I can read them to you if you would like to have them.

Mr. CHAPLIN: The speaker asked for certain specific registration; will he be kind enough to tell us in the event of this registration how these shippers in the Old Country would then act?

The CHAIRMAN: He will reach that in a moment. It would rather break in.

WITNESS: It is immaterial, I can answer it now. We will act in the same way as we have done before; we will send goods to Canada, but when the registrations take place we are not likely to give the same amount of credit to Canadian firms that we did in the past, it is not likely when we know that a firm has got few assets, that they are all pledged to the bank, that we are going to ship goods to Canada. We want it as a guide to know how far Canadian firms can get credit. We will act in the same way as we have been acting in the past, as we are acting to-day, but we will get a greater guide as to the credit we will grant the Canadian firms.

By Mr. Clark:

Q. Is there a similar provision in England as proposed under section 88?

WITNESS: It is not necessary; English banking is entirely different, and there is no necessity for a provision for registration like that, because when a firm goes insolvent in England and the bank has given a certain line of credit the bank stands in the same position as an ordinary creditor.

The CHAIRMAN: No priority in the English law.

WITNESS: In these typical cases I will read one, and may I refrain from mentioning the name of the bank or the creditors—I am not quarrelling with individual banks, but with the Bank Act. This is a shipment of goods that was made in November, the order was placed in November, 1919, and the goods were shipped over various periods; the total amount of the goods was £2,807; no payments were ever received, nor any complaints, but the customer wrote in September, 1920, stating that the goods were imperfect, and he consequently refused to accept them, and they were left in his premises at the English firm's disposal, and would they please give forwarding instructions. Owing to some mischance that letter went astray and it was returned to the Canadian firm. The agent of the English firm got in touch with the Canadian firm and agreed to the return of these goods, stating that he would give an address in Montreal to which the goods could be delivered on their account. On calling the next day to give this address, our agent learned that after his departure the previous day the bank had foreclosed, and refused to part with the goods. Our agent immediately interviewed his lawyers, who advised him that as the goods were only transiently in possession of the holder they would undoubtedly be handed over as soon as the bank had ascertained which goods in the premises belonged to the

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estate, and which did not; and he need have no misgivings. After the inventory was taken the bank claimed that the goods, of which fifty pieces were in the customer's warehouse and twenty five pieces still remained in bond, were part of the estate, and refused to release them. Eventually the matter went to court and judgment was given in January, 1921 against us; so that the goods were entirely lost to us, and in addition we had to pay the legal expense. The estate is bankrupt, and there is no dividend for any creditor excepting the bank. We believed we had a clear case. Under the Canadian law we lost it; and this experience naturally had an adverse influence on our later settlement with the Canadian customers. This is typical, if you are willing to accept that; I will let you read them. I think that goods are just as essential to a man who is a trader as the credit a bank gives him; he cannot trade without his goods. Therefore I think it is very unfair that the bank should have a prior claim without registration. As a matter of fact I don't think it ought to have a prior claim at all, but I think it more unfair that it should have a prior claim without registration.

Again, I think that unless a firm has paid for its goods it should not pledge them to the bank. A firm should not pledge goods that do not belong to them. I don't think that is fair. A firm should not be allowed to pledge goods that do not belong to them. Many firms have suffered through the unscrupulous action of a certain type of trader under section 86. What has happened is this: firms who have been heavily involved, who have given a lien on all their stock to the bank, have come over to England and have bought very large stocks of goods in England, and they have been shipped to Canada, and the documents of those goods have been handed to the bank and hypothecated under section 86. You can see how easy it is for a trader who has got a huge lien on his stock, to go to England and buy there and hypothecate the goods he buys under section 86. Quite a number of cases have occurred where the goods have still been in bond when the bank has foreclosed. They have got goods under 86 of the Bank Act, and the goods are still in bond, and in some of those instances when the bank were realizing on those it has been the bank who has paid the duty to get the goods out of bond. In one case the bank sold these goods in forced realization, and after they had paid the duty they got 5 cents on the dollar.

By the Chairman:

Q. What would be the general reputation of firms who would do that? Were they in fairly good standing? Were they firms of probity in Canada who would transfer to a bank these warehouse receipts immediately like that? It sounds very bad?—A. I have not got definite evidence here, but probably some of the agents who are intimately associated with that can tell you that; I do not want to say anything about Canadian firms if I can help it. I want to treat them all as being as honest as I possibly can. There are black sheep in every flock, but I am not here fault finding. I want to come here in a spirit of friendliness; we are all British, and that is my object in coming; coming to Canada is just like coming home. Therefore I want to urge that the principles of section 88a be incorporated in the Act. I am speaking to the Committee on Banking and Commerce when I say this. I want to urge upon the members of that committee that the principles that the Hon. W. S. Fielding has brought forth in this new clause be incorporated in the Act; and I want to urge further that the principles be extended to sections 86 and 87. I do not want to urge that they should be wholly applied to 86, because that is going to damage Canada's export trade. I want the principles of 86 applied to goods that are imported into Canada; I don't want the export trade of Canada interfered with or hurt in any way, and 86 might apply to both export and import trade, and

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I only ask that the principles of clause 88a be incorporated to include 86 and 87. I say 87 because it is a synonymous clause with 86. I have a few additions which I will give you a memorandum of later on, and which I would like to suggest to be made to clause 88a of the Bank Act. This first clause addition I would like is that specific amounts should be stated on each registration. When a man gives notice of his intention to give a lien to the bank, he may be only getting a loan from the bank of \$10,000 yet he may have a stock of \$50,000; I think there ought to be some amount stated, that he is giving a lien on \$10,000 worth of goods. If I search the Registry from afar—you must remember I am speaking from England all the time—and while I find he may have given this \$10,000 lien to the bank, he may be a man of very substantial assets; he may have \$100,000 or \$200,000, but I cannot know that; all I know is he has given a lien to the bank. I would like it stated, and subsequent amounts as there are given should be automatically registered.

Hon. Mr. FIELDING: It would mean the registration of each transaction?
—A. Yes.

Hon. Mr. FIELDING: The amendment is merely to serve notice, to put you in a position to know that this man is trading under that Act, and you have the warning; that is all the object of that notice. If we are going to require the registration of each individual transaction that makes it a very difficult matter. However, proceed.

WITNESS: I appreciate your point, but I am looking at the credit of the Canadian firms when I make this suggestion; I am not looking at it from my own point of view, I am looking at the injurious effect it may have on a Canadian firm. I might not be likely to give credit. He has \$200,000 of stock; he has given a lien to the bank, I do not know the amount of that lien, and I may refuse to give him any credit.

The second thing is that all liens granted prior to August 1, 1923, which is the date this clause comes into operation, shall be null and void. I put it in that simple form; it means that every lien that is granted after the 1st August should be registered. I do not see any provision in the Act for registration of liens prior to the 1st August. It is quite easy in July for quite a lot of liens to be given, and there is no registration to take effect. Then I would like to see the publication of the liens given to the banks. In asking for this, sir, I am only following a precedent that is already in operation in Canada, it is at present in operation until this new Act comes into force. In 1916 there was the amending Act to the Bank Act; this amending Act was for the purpose of allowing livestock to come under clause 88 of the Bank Act, and they have put a schedule at the back in which they give you two forms, H and I, and I would like to be incorporated in section 88a without interfering with the last three clauses where it gives the right to search, and the payment of a fee for doing so—I would like a similar provision incorporated in the Act, whereby public notice is given which takes the form of notice in the *Canada Gazette*. I want to keep the provision of the right of search also. Those are the suggested amendments that I make to clause 88a. I approve clause 88a as it is, but I make the suggested amendments in addition. I think if the Bank Act had been more stringent in the past, there would not have been a great deal of the hazardous credit that has been given during the past few years, and it is the opinion of a great number of English houses that the Merchants Bank of Canada would still be in existence to-day if clause 88 of the Bank Act had been just a little bit more strict. I would like to say, however, that this failure has caused a big blow to Canada's financial reputation abroad. I am speaking now of business houses, not financial institutions or financial concerns.

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By the Chairman:

Q. Why do you make that statement? Is it because if these registrations had been known to the public certain firms which were involved in the failure of the Merchants Bank would not have received the amount of credit?—A. Yes; and I think the banks mentioned would not have given the large amount of credits to the firm—

By Hon. Mr. Fielding:

Q. On the other hand your British firms knew in a general way that this lien system existed; you were doing business with a knowledge that there was such a system in Canada?—A. Yes, we were doing it with knowledge that these prior liens were in existence, but we were always thinking in the English way of thinking of doing business; so that although the lien existed we were always thinking in our own English methods of doing business rather than the Canadian method. It has been before the public for some number of years now, and I know of one gentleman who has interviewed three successive Canadian High Commissioners in London with a view to getting a revision of the Act.

Q. In the meantime it existed, you knew that when you were selling goods to Canada you were taking that risk?—A. We were, sir.

By Mr. W. F. Maclean:

Q. And Britain is a trader throughout the world and supposed to take care of themselves?—A. I should think that England is the greatest trading nation.

Q. And therefore knows every country on the globe?—A. And therefore wants to trade more with Canada, and therefore I want you to listen to my representations that we are anxious for imperial trade; the thing has to come about sooner or later; Great Britain is getting to think of inter-Imperial trade, and I want to improve trading relations.

By Hon. Mr. Fielding:

Q. I suppose incidentally also looking after the interests of the English merchant?—A. Undoubtedly.

Q. That is your main purpose I take it for granted?—A. Yes, I would not be here otherwise, but I am coming in as friendly a spirit as I can.

By Mr. Marler:

Q. I cannot quite agree with the witness's statement about the Merchants Bank; the Merchants Bank did not actually fail, but it was taken over.—A. It was more in substance than in fact—

Q. How did that affect the situation of warehouse receipts and bills of lading?

Hon. Mr. FIELDING: What is the direct connection between the Merchants Bank—

WITNESS: I simply made the remark if clause 88 here in the Bank Act had been more stringent there would not have been such easy credit given to Canadian firms. If there had been more stringent regulations applying to clause 88 the banks would not have given such easy terms to firms in Canada.

By Mr. Mitchell:

Q. As a matter of fact you do not know that it was credit given under 88 that caused the difficulties that arose over the Merchants Bank?—A. I do not know exactly but I read Sir Montagu Allan's statement, and he said there had been given credits beyond the bounds of prudence.

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Hon. Mr. FIELDING: If you can give us the connection between the failure of the Merchants Bank and these provisions, you would be quite justified, otherwise I do not see what the Merchants Bank has to do with it.

Mr. MARLER: I cannot connect up what is in the mind of the witness with the Merchants Bank.

Mr. MITCHELL: I asked if the credit to which he refers which caused the disaster were due to credits given under 88?—A. I read the speech of Sir Montagu Allan advising the shareholders to take the proposition of the Bank of Montreal—that is correct, is it not, that the Bank of Montreal absorbed the Merchants Bank of Canada?—and he said that credits had been granted beyond all the bounds of prudence.

By Hon. Mr. Fielding:

Q. Under this section?—A. I do not say under this section.

Q. Unless you put it under this section what is the bearing of it?—A. Very well, I will withdraw my remarks about the Merchants Bank.

Mr. MITCHELL: As a matter of fact the advances referred to as being made beyond the measure of prudence were made to brokerage firms and had nothing to do with section 88.

By Mr. Jacobs:

Q. Is it not because they were not covered that they lost the money?—A. The bank?

Q. Yes?—A. That is hazardous giving of credit I should think. I want to say one thing, I do not want to stress it too much, but during this year several Canadian people have come to England and interviewed prominent gentlemen in England that I know and have asked for financial assistance to Canada. You need all the financial assistance you can get, and we are willing to give it. I was at an interview with a gentleman who was asked for something like two million dollars, or to influence two million dollars to come to Canada, and he said "I have no confidence in Canada." The gentleman said "Why?" "Because of your Bank Act." I do not think myself personally, that the Bank Act has any application to a man loaning money to Canada or putting money into a financial institution in Canada, or financing any industrial concern, but I want to show you that he has lost confidence to a certain extent. He says, if I sell my goods to Canada, as I do, at the moment, I have not got the same confidence in trading with Canada by selling her goods, on account of the liens that are given under the Bank Act.

By Hon. Mr. Fielding:

Q. Would you understand that this gentleman had previously had business with Canada?—A. Trading relations.

Q. And had confidence?—A. He had, sir, but he had made certain losses—this was for an industrial undertaking, but he said "I have been mulcted in losses in England through trading with Canada, and if I go out and set up an industrial concern in Canada I shall be more likely to be mulcted in losses by virtue of the liens that Canadian banks hold."

Mr. MITCHELL: I do not know whether we should be interested in what individuals should happen to think in England as to the conditions here in Canada as to whether they could come and invest their money in Canada—I mean when we are discussing the provisions of section 88. As I understand it, this gentleman is here for the purpose of making certain representations to this committee in order that British merchants who sell to this country, under

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section 88, may be protected in so far as we can possibly protect them, and the opinion of one man or the other by hearsay should not, it seems to me, be placed before this committee. If this gentleman will point out to me what he suggests should be added or struck out of section 88 in order to protect the merchants of England, then I think we should hear it, and I am sure every member of this committee will be glad to co-operate with them in any way we possibly can; but we should limit ourselves to what this witness is here for, and not to hear hearsay evidence as to what some man who happened to have had a bad trade with some individual in the past may possibly think of Canadian credit.

Mr. IRVINE: I take issue with that view. I believe after all, credit is confidence, and that our Bank Act has been the means of undermining confidence in Great Britain, and we know it.

Mr. MITCHELL: I do not think we should go beyond that and hear evidence of what one individual or another individual may think, because in some transaction in the past he has lost money.

The CHAIRMAN: I do not think Mr. Tulloch intends to refer to many instances of that kind. I suppose he wishes to illustrate a point in that way.

The WITNESS: I do not wish to say anything that will annoy you gentlemen. I want to be friendly with you. It is not one instance this year, and I think that I said that I was present at an interview between a Canadian gentleman and this British gentleman, so it was evidence I myself heard between a Canadian gentleman and an Englishman, in which he was asked to invest about \$2,000,000. His reason as given was that he had no confidence in Canada on account of the Bank Act.

Mr. LADNER: Does not the witness know it is competent for any trader to protect himself by lien for specific charged as against the bank, and when he voluntarily puts his goods out, taking his chance on the credit of the individual, he is the man giving out credit, which he might have secured by chattel mortgage lien—

The CHAIRMAN: No such thing as a chattel mortgage today would be of any avail under any Bankruptcy Act.

The WITNESS: I will leave that question. I just illustrated that as showing that confidence has been lost in England, and I think it would be wise to try and regain it. So long as Section 88 of the Bank Act is in operation, as it has functioned in the past few years, we have lost a certain amount of confidence. I want it extended to try and bring in Section 86. I would like it to bring in importation of goods under Section 86.

By Mr. Marler:

Q. Is it not possible for an exporter to sell those goods against bill of lading?
—A. Cash against documents?

Q. Yes. I personally ask for information. There must be some particular reason why the merchant cannot do so.—A. I do not think the Canadian firms are strong enough to buy cash against documents. We have three representatives here of British firms in Canada, and they will be able to tell you more about the credit system of the Canadian firms they deal with, but as I said, it has not been possible to sell goods cash against documents in Canada. We have to give at least 60 days credit. When I was interrupted I said I would like the principles of 88-A apply to 86. I will give you an example of what I feel may happen. Take Clause 88-A as it now stands, and let us assume it has been incorporated in the Act. It applies then to 88. The Canadian firm is trading on this certain credit. They have not given notice of the lien to

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the bank under Section 88, and they want to buy goods from England. We find out that they are sound, and that they have no registration of a lien under Section 88, and we sell them goods in the usual way on credit, 60 days. Between the time of the shipment being made, they take a loan, give notice of the lien to the bank, and they give the lien to the bank, which is registered, but our goods have been shipped. I am only saying this might be a possibility, to illustrate my point. When these goods arrive in Canada, they come under 86 of the Bank Act; those goods are hypothecated under the bill of lading, and in hypothecating them they can wipe off, by virtue of the subsidiary loan, the registered lien under 88-A, and appear to the world at large as creditors again, without any registration. That is why I ask the principle of 86 to be incorporated. I want to conclude by very earnestly—

By Mr. Marler:

Q. How will you connect up each separate transaction, so that a bank or other person will have notice that those goods are not the property of the person who holds the warehouse receipt. Supposing a bill of lading is pledged to a bank, how are you going to register the claim of the exporter?—A. The importer, I said; not the exporter.

Q. The merchant in Bradford sends out goods under bill of lading and that is pledged to a bank. You want to preserve a prior lien on these goods as represented by the bill of lading?—A. No, I ask that it shall be registered. I want the principles of 88A to be applied.

Q. Quite so. How is each separate transaction to be connected up? How are you going to do that?—A. Is there any reason why they should not be? Just by filing a register in the same way as you would register under 88A.

Q. Every separate transaction would be subject to registration?—A. It is not going to be a lengthy business.

By Mr. Mitchell:

Q. You mean the bank registers it with you?—A. The Act says the person who is being given a loan must make the registration before they give the loan, must see that the registration is given.

Q. That is in order to keep the British merchant posted as to the number of loans that are made?—A. Yes.

Q. Would you not be able to get the same information by asking your creditor to give you a letter from the bank saying what the amount of the loan happened to be that he made on that bill of lading?—A. If the bank would do it, we could.

Q. The reason you would want to know whether there was more than say \$10,000 loaned against the bill of lading, would be to find out whether you would give further credit?—A. Yes.

Q. You would tell the customer "if you want us to give further credit, give us a letter from your bank manager showing how much of that bill of lading you have already put up as collateral."—A. It might be an entirely different firm in England who are dealing with him in that second transaction, and they do not know anything about him having hypothecated any of the goods under section 86 to the bank.

Q. If he had hypothecated his bill of lading with the first merchant, the second merchant would have notice of that, because it has to be registered under the section.—A. It does not, under 86.

Q. A few moments ago you said you wanted to register each particular transaction. I am trying to get away from that difficulty, to see if your objec-

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tion is well founded, suppose the second merchant makes a sale. The buyer makes out a bill of lading and gets \$10,000; the second man comes along and he has notice that there is a registration in Canada, can he not ask the bank manager to give a loan, which would avoid all the transactions you mention.

By Mr. Irvine:

Q. I think you mentioned such letters before, in your opening remarks.—A. We only had a letter saying the credit of the firm was first-class. We have never had individual information. That may be a thing that would become a custom, and if the banks would co-operate, I would like to meet the banks and see if we could not get over any such difficulties.

By Mr. Mitchell:

Q. I want to find out if something cannot be worked out along this line in order to protect; at the same time your getting from the manager the amount of the loan that was made on the first collateral would be just as good a protection for the merchant in England as to have each subsequent transaction.—A. If the banks in Canada would like to make a suggestion like that, I would like to confer with them to get over the difficulty.

By Mr. Marler:

Q. Is it not the case? Is not the bill of lading given up as against delivery of the goods?—A. It is. That is where I see the difficulty.

Q. The bill of lading does not really come into possession of the bank at all. It is possible the goods may be taken into bond?—A. And the warehouse receipt is given over the bill of lading.

Q. Or may be taken into the importer's own building for the purpose of being cut up and manufactured into cloth. That is Section 88.—A. Yes.

Q. Under Section 86 the bank has the right, when the bill of lading is taken up and the goods put in the warehouse under that warehouse receipt. The bank never sees the bill of lading. It does see the warehouse receipt.—A. But the warehouse receipt and the bill of lading must be taken together.

Q. And you want to connect the warehouse receipts for any particular loan?—A. I know there is a difficulty, but I want to avoid what the unscrupulous trader can do.

Q. I simply want to clarify as to how the producer can be affected.—A. I would like to talk over the matter with one or two gentlemen who probably have a knowledge of Canadian law. I would like to talk that over with them. I have come from England and I am prepared to stay here and confer with anybody if I can do anything towards assisting the members of the Committee in placing my views clearly before them, and I can quite foresee the difficulties under Section 86, but I was trying to point out to the Committee where an unscrupulous trader could get away with appearing as of good credit without being registered.

Q. I do not see how your lien is to be preserved as regards moveables. It is very different from real estate, and I would be glad if you could clarify that or somebody could clarify that.

By Sir Henry Drayton:

Q. In the first instance your objection to 86—you do not object to dealing in warehouse receipts and bills of lading do you?—A. No, sir.

Q. There is no provision under the English Bank Act to prevent the English banker doing that?—A. No, there is not, sir.

Q. So really as far as Section 86 is concerned, you think that the Canadian banks have no greater privilege than the English banks have now?—A. They have a priority lien over the unpaid vendor.

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Q. If anyone, whether it is an individual or anybody else, buys a warehouse receipt, has he not priority?—A. Yes.

Q. Why should not the bank have the priority to buy?—A. I appreciate the difficulty of my suggestion of incorporating Section 86 under the Act. I just want to say I quite appreciate the difficulty of bringing forward Section 86, but I feel it is going to leave a loop-hole open for unscrupulous traders to get goods through, and give them to the bank under Section 86 instead of having a register under 88-A.

Q. An English bank can buy just as well as a Canadian bank, those bills of lading and warehouse receipts?—A. Yes.

Q. And get just the same rights?—A. Yes, but they have no such a thing as Clause 88-A or 88, whereby the bank has a lien on the stock in trade.

Q. You are confusing the two things. You have in England the law, which is in effect. Why confuse these?—A. Because they are synonymous.

Q. If you have 86 in England, why bother about 88 here?—A. I want to point out to you under my contention—I am assuming that 88-A has been incorporated in the Act as it is worded now. I am only assuming that a man wishes to get credit, who has never been registered as having given a lien to his bank under 88-A. He purchases goods from abroad, then goes to his bank and asks for a loan and registers. When the goods arrive from abroad he hypothecates under 86 and cancels the registration under 88-A. If he buys goods on credit and hypothecates them he should apply the money to pay for them and not get a loan on goods to carry on his business. He should not pledge them to the bank for the purpose of carrying on his business.

Q. You are getting into a question of morals again. We are trying to see the difference between the Canadian and the English law.—A. I will say 86 is very much in compliance with the English law.

Q. That being so, why should we infringe upon the ordinary rights of banks to carry on business in Canada under 86?—A. I know it is a difficult matter to work out.

Q. Put it another way: why should a bank be in a worse position than any broker who chooses to buy a bill of lading or a warehouse receipt?—A. The bank is in the position of the money broker now.

Q. Suppose the money broker happens to be a bank—A. The broker cannot do anything under 88.

Q. We are away from 88 now.—A. I want to connect 88 and 86 together.

Mr. RYCKMAN: It is only in the working of 86, in connection with 88 that the witness is addressing us. It is by reason of 88 in our Act that 86 comes into question.

Mr. MARLER: I may say I see the reasoning of my friend here very distinctly.

The WITNESS: I am trying to point out to you that an unscrupulous trader will take advantage of 86 and thereby evade registration under 88-A.

By Sir Henry Drayton:

Q. That particular thing would not be peculiar to Canada. If you had an unscrupulous trader in England he could do just the same, insofar as the purchase of a warehouse receipt or a bill of lading is concerned. Could he not do just the same?—A. Yes, sir. I admit it. I do not want to beat about the bush. I admit he can do it, but I want to point out that the man can keep on buying goods from England, hypothecating them under 86, without having a register under 88-A.

Mr. MARLER: The same as any other place in the world.

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By Mr. Ryckman:

Q. If the witness will give the statement he gave a short time ago about the merchant going to England and buying goods, it will make it clear, even to Sir Henry Drayton.—A. Well, I give this example: I say assuming clause 88-A is incorporated in the Act as it stands in Bill 83. The trader has not registered a lien on any of the goods he has given to the bank, and he goes over to England and buys a large quantity of goods, but after the goods have been shipped from England, he wants a loan from his bank, so he gives a lien under 88 of the stock in trade under Clause 3. I am alluding all the time to Clause 3 of 88. He gives a lien on these goods to the bank, which is registered under Section 88-A. When the goods arrived in Canada, he hypothecates the bill of lading under Section 86, and he goes to the Registrar and he says “here is the notice from the bank cancelling my registration under 88-A.” He appears to the world at large as being a creditor again, and he goes and buys more goods in England, hypothecates again and gets the previous goods out of bond, and he is really trading with my money.

By Sir Henry Drayton:

Q. Instead of having that amendment to 88, let us strike out 88 altogether. What is the difference?—A. If you do I will be very very pleased.

Q. What is the difference so far as 86 is concerned?—A. None at all. But it is the application of 88. I say 88 and 86 are synonymous, so long as 88 is in your Bank Act.

By Hon. Mr. Fielding:

Q. On what date did you leave England?—A. I left my home on the 29th March.

Q. You had not then of course been acquainted with the Bank Act as it is now proposed to be revised?—A. No.

Q. On the assumption that you have gone all through it and that 88 will be adopted as proposed here, does not that substantially meet the whole grievance you had in England?—A. It substantially meets it, but not the whole grievance. As I endeavoured to point out, 86 is synonymous with 88.

Q. The impression I had is that 88 to a very large extent met the substantial objections I heard in England.—A. Yes, but I am pressing for the Committee to incorporate the new clause in its entirety. I ask for certain registrations to apply to imported goods under 86, because you cannot help reading 86 and 88 together. I want the unscrupulous trader checked. You can get out of the principle of 88-A by 86.

By Mr. Stevens:

Q. In connection with these two clauses, 86 and 88-A, would it meet the views of the exporter in England, whom the witness represents—I have not been able to find just exactly the word, but the principles perhaps could be made clear in my own language, if provision were made in connection with any lien granted after the shipment of goods, such as in the illustration referred to, that such lien should not apply to goods in transit, or that were shipped prior to the registration or the granting of the lien loan to the bank.—A. You see he would be given a lien on these goods under Section 88, that is all the goods, wares and merchandise in his business. He gives that lien to the bank and he gets a loan from the bank and he registers the lien in the usual way. When those goods arrive from England he pledges or gives the bill of lading to the bank under 86, and we will say, for the purpose of making an entry of it, the banks would loan him money against 86 and he says to the bank “here is

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\$50,000 I got from you under 88." Satisfaction is given under 88, but he is still pledging goods under 86 to avoid the registration.

Q. If we could make a provision under the Act preventing him from doing that, it would meet your case?—A. Yes. I would be perfectly satisfied.

Q. Frankly, it seems to me that is the crux of the whole discussion of the witness, and when it comes to a discussion of it, it appeals to me as a very proper provision, because I cannot see the justice in permitting any one to take a warehouse receipt and liquidate an existing loan and not give to the shipper due protection under it. Regarding the questions of Sir Henry Drayton, I think I can frame another question which would clear that point. It would be this: Sir Henry was pressing that 86 was virtually the same as the British Bank Act, which I think is perfectly correct, but if 88 did not exist you would have no objection to 86 as it exists.—A. I do not ask anybody in Canada to do anything we do not do in England.

Q. I want to make this clear, as Sir Henry would say, "to my own self." You have no objection to 86?—A. No.

Q. Providing the powers under 88 were not applied.—A. If 88 were not in existence I would not be in Canada to-day.

Q. But due to the existence of 88 and the privileges thereunder, it prejudices your rights and your client's rights under 86.—A. Yes.

By Mr. Marler:

Q. I question very much if banks ever do make advances on that description of bills of lading, and when the goods come out here the money is used to pay off some prior advances in that way. Do you know of any in practice?—

A. Might I refer you to these three gentlemen. There are three gentlemen who are dealing with Canadian firms daily, and they will tell you it is quite a practice. I do not think I have anything more to add. I have taken a great deal more time than I had intended, but I do want to press before the Committee for the principles of 88-A, which are now written, and with my amendments, to be put in the Act. I want the incorporation of the provision which is going to prevent 88-A from being abused. Therefore I want a provision that will prevent that being abused under 86. That is all I ask.

By Mr. Irvine:

Q. I would like to ask the witness if he would explain to us what would happen in England supposing a man were buying goods in Canada—what have you in England to prevent a British importer hypothecating the goods he ships from Canada in precisely the same manner?—A. He could do that, but we have no Section 88-A.

By Mr. Mitchell:

Q. It does not make any difference; you can use the warehouse receipt.—A. We have not got Section 88. The process of doing banking business in England is slightly a different one. I am a trader in England and I want my bank to give me an advance. I get advances from my bank, which are given to me not by virtue of any Bank Act or any powers conferred on it by a Bank Act, not by liens or anything. They give me an advance, which we call an over-draft. They give it on the personal knowledge of myself and the stability of the business with which I am connected. It is a direct loan to me. Supposing I fail, that bank stands in the same way as all the other creditors and get their dividend as if they were a trade creditor.

By Mr. Irvine:

Q. You say the banks in Canada have greater security than the banks in England, Mr. Mitchell?

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Mr. MITCHELL: Much greater.

By Mr. Irvine:

Q. Under the warehouse receipt issued under 86, which I understand you can do in England?—A. Yes.

Q. That can be negotiated?—A. Yes. It cannot be negotiated. You would have to pledge that to an individual. He would hold these goods but that is all he would hold. Supposing he became insolvent, the man who had sold him the goods would stand as a creditor in the rest of the estate and get the dividends from the rest of the estate.

By Mr. Marler:

Q. He would be a general creditor?—A. He would be a general creditor. He only pledges goods that are under lock and key, and these goods are sold to meet the particular pledge. But the man who sold him the goods from Canada would still be a creditor on the estate for all the goods and stock he held in his premises.

By Mr. Mitchell:

Q. But the warehouse receipt had been pledged?—A. I say it can be pledged.

Q. And if it is?—A. The man who has advanced money to the firm will hold the warehouse receipt.

Q. He would be able to be defrauded in the same way that the seller would be, vis a vis our Canadian purchaser?—A. No, he would hold the lien on the goods he has got. When they are sold he can only come against the estate for the amount unsatisfied.

Q. What about the Canadian shipper?—A. He would stand with all the general creditors on the estate that has not been pledged.

Q. In the same position that the English shipper would be in Canada?—A. Yes, without section 88, of course, of the Bank Act.

Q. Under 86?—A. Yes, but without section 88 giving the bank a prior claim on the assets of the estate.

Q. In your opinion would you say that this further privilege, by the clause of the Act you have been discussing, interferes materially with our import trades?—A. No, sir, I think it is for the benefit of Canada that you have clause 88 in your Bank Act. As I said in starting, we would like to have it eliminated, but I think it is for the benefit of Canada that clause 88 should appear, because I do not think that Canada's financial resources at present are strong enough not to have section 88 in the Bank Act. But I want 88-A applied, so that the banks would not be in the position that they would be holding liens and mortgages perhaps, which nobody knows they have.

Q. If the banks did not hold such liens, your opinion would be that such privilege interferes with our import trade at the present time?—A. It is interfering with your import trade, because we do not know to whom we should give credit. We are much affected by the fact that we do not know to whom we should give credit.

The CHAIRMAN: Mr. Aime Geoffrion of Montreal is present at our meetings every day, as one of the counsel representing the Bankers' Association. Personally I see no objection to giving him permission to ask questions from time to time, if that is the sense of the Committee. Is there any objection to it? I do not wish to have it understood that counsel can interfere or intervene at our proceedings, except on the request of the Committee or the Chair. If there is no objection I would ask Mr. Geoffrion if he wishes to ask the witness

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any questions upon this point brought out, because it is very much of a legal point.

Mr. IRVINE: He may appear as a witness, but I object to his asking questions.

Mr. STEVENS: This is a most complicated and technical problem. Together with yourself and others, I have been on this Committee for many years, and I learn every time I attend, more of the inner workings of the Bank Act. Nothing can be feared under your presidency from any one asking reasonable questions of the witness, but I should strongly urge that we might perhaps limit those who shall be permitted to ask, because, after all, we do not want to turn this into a public debating society. I would move that inasmuch as this affects all the chartered banks of Canada, that any representative of the chartered banks should be privileged, under your control and under the Committee's control, to ask any reasonable questions of the witness.

Mr. MARLER: I second that.

The CHAIRMAN: Mr. Irvine, we would not allow that privilege to be abused in any way.

Mr. IRVINE: I am in agreement with Mr. Stevens to get all the information possible, but I think it could better be arrived at by allowing the gentleman you refer to to give his evidence.

The WITNESS: I would just like to say that I have not got a counsel behind me at the moment, although I am perfectly willing to answer questions. But you must remember that I am not a lawyer. I am saying that now before you ask me any questions.

The CHAIRMAN: We are not going to have you cross-examined. We will protect you.

Mr. WOODSWORTH: If this is done it seems to me it would only be fair to the bankers and to all the different industries and traders of Canada that they should be allowed to be represented by counsel or by any other representative chosen to take part.

Mr. LADNER: I think any organized body to whom the subject matter before the Committee if of importance should have the privilege of asking questions within reasonable limits. I would like a motion of that kind along that general character.

The CHAIRMAN: I hope you understand the question.

Sir HENRY DRAYTON: What has been the practice in the past? What was done in the last revision?

The CHAIRMAN: I don't think any counsel intervened in the proceedings at all.

Sir HENRY DRAYTON: If that is the case I don't think we had better start. I think it would be very much better—I don't want to shut out Mr. Geoffrion or anybody else, but I think if we are going to have cross-examinations we will never get finished with this thing at all. I don't see why Mr. Geoffrion should not however, be put in a position to get any questions he desires asked put through the Chairman or put through any member that he likes in the Committee; there is no reason why that should not be done.

Mr. W. F. MACLEAN: Or address the Committee.

Sir HENRY DRAYTON: Yes, or in any way he likes.

Mr. MITCHELL: Mr. Geoffrion asks me to state that he has not made any request to ask any questions.

The CHAIRMAN: That is very true.

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Sir HENRY DRAYTON: If you do not do that, it seems to me it is impossible to treat everybody the same. The Bankers Association of course will be here all the time and they should be here all the time; they are very very vitally interested in it; other gentlemen are interested in one phase and another phase, but they cannot be here all the time. The Members will be here all the time, and it seems to me the Bankers Association and these other outside interests have every right through the Members to put any questions they like, the same way as Mr. Irvine's witness is handled by Mr. Irvine. Any gentleman can assist in bringing out any phase he likes to have brought out, and should assist in getting every phase brought out; but I really think it would be a mistake to open the door to general cross-examination.

Mr. MITCHELL: Mr. Geoffrion asks me to say he did not desire to put any questions.

Mr. STEVENS: I have no desire to unduly press this resolution, and I do not desire to precipitate anything in the nature of critical cross-examination, but it does seem to me that when we are dealing with this legislation which is vitally affecting one of the great branches of finance or industry of the country, that we should not say to those who are affected "you are not going to be privileged to ask a question of a witness who is dealing technically with this business." However, I shall not press the resolution.

The CHAIRMAN: Let your motion stand for later consideration.

By Mr. Mitchell:

Q. Supposing a Canadian shipper shipped some goods to a customer in Great Britain, that customer warehouses the goods and then either sells or pledges the warehouse receipts; what position would the Canadian shipper be in quoad the man who holds the warehouse receipt in England?—A. The man who holds the warehouse receipt would be in the position of a prior creditor, or a secured creditor for the amount of goods which he received from the man who pledged—he would be a prior creditor for the goods which the warehouse receipt covered.

Q. Represented?—A. Yes.

Q. In other words he would have a prior claim over the Canadian shipper to the extent of the amount that he advanced on the warehouse receipt?—A. Yes, on the goods; but those goods would be sold first, and he would get the money for those goods, and for the balance he would only stand in as a general creditor, for the balance in the whole estate.

Q. For the balance of what?—A. The balance of any money—if he sold those goods for more than he advanced on them he would have to return that money to the estate.

Q. In the same way as a bank who advances under 88 would only be entitled to the amount they had advanced, and would have to hand the rest over to the estate?—A. Yes. I want you to fully understand that in that case the Canadian creditor does not lose everything; he comes into the estate for the balance of the goods that are in the man's property.

Q. So would you, as a shipper in England who ships goods to the purchaser in Canada; even under 88 after the bank was paid, if there was anything left to the estate you would rank with the other creditors?—A. Yes, but the bank has to get the whole of the estate sold off before we could get any.

Q. It may be a question of time, but in so far as what is pledged under 88, if they were paid out of that then you would rank with the other creditors?—A. Yes.

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Q. In the same way as the seller of a warehouse receipt would in England?
—A. Yes; but under 88 the bank have a prior claim on all the assets of a man's business.

Q. Only what is pledged?—A. Only what is pledged.

Q. When you are discussing 88 this morning and asking that you be protected, you are only discussing your protection as a vendor for the goods you would ship, and which would be pledged to the bank?—A. Yes.

Q. You are not asking for anything to be done as regards the rest of the estate?—A. Yes, I do, sir.

Q. What do you want?—A. Do you mean under 86 or 88?

Q. Under 88?—A. I want 88a as it stands, that is to say that they shall be registered; every time the lien is given to the bank there shall be a registration. I am not going to give credit to a man if I find he is pledged right and left to the bank.

Q. So we all want that?—A. I know you all want that. I thank you very much for the kind way you have listened to me. I do ask for 88a to be incorporated in the Act, and I ask for some consideration to prevent unscrupulous traders getting over 88a by working under 86. I will let you have the amendments I have suggested later on.

The CHAIRMAN: We will now hear from Mr. Shaw.

Mr. J. H. SHAW called.

The CHAIRMAN: You represent British firms in Canada I understand?—
A. Yes.

The CHAIRMAN: Proceed and make whatever statement you wish.—A. I am speaking on behalf of The British Agents' Association of Canada who represent over forty of the largest textile manufacturers and merchants of Great Britain. I shall try and avoid covering the ground that Mr. Tulloch covered, as naturally many of our firms are members of the Chambers of Commerce, on behalf of whom he spoke; but on the other hand, quite a few of the firms that we represent are not included in the list of Chambers of Commerce; for instance, there are quite a number of firms in the west of England, there are quite a number of Scotch firms and some Irish firms; so we go a little further than the list of Chambers of Commerce which Mr. Tulloch referred to. Our position also is somewhat different, to this extent: we are the connecting link between the firms represented in the membership of the various Chambers and the firms here. We had a great deal to say in regard to the credit of the Canadian firms, recommending them to our firms that we represent, and in that connection perhaps before we go on with what I have to say, you would permit me to elucidate one or two points that were raised in regard to the Merchants Bank and which Mr. Tulloch did not answer, was not in a position to answer. In Sir Montagu Allan's speech, and in all the examinations that took place, there was reference made particularly to two specified firms, Thornton-Davidson, the brokers, and the Exclusive Ladies' Wear. The Exclusive Ladies' Wear from the standpoint of trade was no exceptional incident in the history of the Merchants Bank, but I might give you one or two particulars in that, and a resultant effect. The Exclusive Ladies' Wear went over to the other side with a letter from the Merchants Bank speaking of their credit and of the support they were receiving from the bank. In their last trip home they bought practically on the strength of this letter from the Merchants Bank several hundred thousand dollars worth of goods. Amongst other firms they bought from one of my firms. These

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goods were shipped out. I could give a very interesting experience, but I will refrain; it came out afterwards (I made a special investigation in my capacity as Inspector of the estate) a great quantity of these goods including my own firm's were hypothecated to the bank within a few hours after arrival, that is to say, as soon as the documents necessary, warehouse receipts could be procured, they were hypothecated to the bank; they were practically purchased with a view of hypothecation to the bank, judging from the actual issue. One of the results of other instances—this was simply cumulative—one of the effects of all this abuse of the clauses—and that is the point I want to emphasize—it is not particularly the clauses themselves, it is the abuse of these clauses, and we want to try and make more difficult the possibility of abusing them—the result of these transactions of the Merchants Bank were such that in considering the credit if we British agents found out they were clients of the Merchants Bank that was a black mark to their credit; to that extent Mr. Tulloch was quite correct in saying if there had not been a possibility of abuse of clauses 86 and 88, the Merchants Bank would certainly not have suffered so many of the losses they did.

Now, I am going to try and avoid covering the ground Mr. Tulloch covered. The British Agents' Association for quite a few years previous to the last consideration of the Bank Act, which dates back 15 or 18 years, have steadily advocated two points; the first point is the registration of all hypothecations; and the second point is, and this would cover many of the discussions on questions that have taken place with regard to section 86, that no firm should have the right of hypothecating any goods unless they are theirs by right of actual cash payment. That is really the crux of the situation as regards the abuse of this clause as typified in the one I mentioned in the Exclusive Ladies' Wear. They could buy goods to the extent of several hundred thousand dollars, bring them out here, and under section 86 hypothecate them under the warehouse receipts, and the bank or some third party would get the benefit. The principle I am advocating is recognized in The Bulk Sales Act, and I think in several other Acts; the principle is recognized in The Bulk Sales Act of Great Britain. If we could get established the fact that no customer had the right of hypothecating goods unless they were his by right of actual cash payment—I stress those words, for, as the lawyers here know, it is quite a complicated question as to what constitutes payment, that is to the lay mind—I understand if I sell a firm a parcel of goods and accept a bill, that is legally considered payment, and then I do not claim on the goods but I claim on the bill. Of course until the bill is met the vendor has not received payment. What we want to get if at all possible, if within the province of this committee to grant, is the making impossible the purchasing of goods, hypothecating them and diverting the money to a third party, be it the bank or anybody else. In many cases of hypothecation, take the importation of sugar and rice and several others, where the cargo is hypothecated, the result of that hypothecation is that the trading firm is trading on the capital of his creditors. It is all wrong. One reason why we are pressing the registration under 86 is this: the hypothecations under 88 apply—to manufacturing concerns—I am speaking, bear in mind, not from the standpoint of the lumber or produce industries, or anything akin to them, I am speaking strictly of the textile side of the matter—the hypothecations under 88 apply to manufacturers or makers-up of goods under process of manufacture, and the result has been practically the inclusion of all goods in their warehouse or factory. A merchant and jobbing house has not the right of hypothecation under 88. The maker-up has the right of hypothecation under section 86; the jobber or the warehouseman, the dry goods house can only hypothecate under section 86, which is largely goods in bond and under warehouse receipt; so if he

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hypothecates to the bank any of his stock which has been taken out of the Customs they have to be placed in a separate building under the control of the bank. The effect is the preponderance of hypothecations are under section 86, far more in the aggregate than under section 88. So we are pressing not only for the registration of hypothecations under section 86, but we would particularly press the British agents' standpoint and particularly stress, if possible, the prevention of the hypothecation of goods unless they are actually paid for. We recognize if a firm owns a table absolutely the firm has the right to hypothecate or pawn it or do what they like with the table; if a man has bought a table on the instalment plan and he has not completely paid for the goods, he cannot pawn it. That is the principle we are claiming. In regard to 88-a we appreciate very largely and very fully and very gratefully the concession that is conceded in 88-a; we want it extended to 86 and 87. We would also like it to include the hypothecation of accounts receivable. There are cases recently where the bankrupt apparently had substantial accounts receivable, but when they came to the Bankruptcy Court all these accounts receivable were hypothecated to the bank; so that we would like the registration of the hypothecation under clause 88 not as Mr. Fielding has indicated, one general blanket registration, but the individual registration and the following registrations. That is absolutely necessary if you are to have a proper basis for the consideration of the credit standing in the case of decision for further transactions. The whole thing hinges on the proper appreciating of the credit standing of any commercial house. If we do not have the full facts we cannot properly appreciate their credit standing.

By An Honourable Member:

Q. Have you prepared an amendment to 88 to cover the points you make?

—A. I have provided here for additions that we would like incorporated in 88-a. The first one should include banks, trust companies, corporations, firms or individuals. I may be going a little outside the territory of this committee, but the reason that I suggest this is that it is only fair to the banks that if you are putting certain conditions on them with regard to the registration of hypothecations, you should also lay similar limitations on the possible competitors of the banks. It would be no good, to a large extent it might nullify 88-a, if I, as a Canadian borrower, could avoid going to the bank and thus avoid registration, if I could go to a trust company or a corporation or an individual, and hypothecate to them and get advances, and there being no similar registration to what we are asking to be imposed upon the bank.

Then the specific amount should be stated with original registration, and subsequent amounts should also be registered.

All liens in existence prior to the Act coming into force should be registered. Mr. Tulloch asked for them to be declared null and void. It would practically work out to the same effect, whichever way you prefer, if all liens in existence prior were to be registered it would simply be another way; if Mr. Tulloch's suggestion was carried out, and they were declared null and void it would simply mean a re-registration.

Then, all liens of accounts receivable should be registered.

It shall be the duty of the Registrar to publish all registrations in the Canada Gazette within one week of such registration.

Those are the points that we would like included in 88-a. We would like in regard to 86 and 87 that there should be the same principle of registration of hypothecations. It is just as important from the standpoint of considering the credit of a firm to know whether their visible assets—when I say that, when you walk into their factory you see what stock they have—to know

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whether those are hypothecated, whether the goods in bond are also hypothecated; we must have the total commitments or you cannot have a proper appreciation of their credit standing. We press this, sir, being the direct connecting link between Great Britain and Canada, the medium through which a very, very large percentage of the textile business goes, and because we realize that in Great Britain at the present time we are continually being urged to give our strenuous efforts to the development of the inter-imperial trade. We are trying to do that for the benefit of Great Britain, we are trying to do it for the benefit of Canada, and individually for ourselves. We come in naturally. The development of this trade between the mother nation and the daughter nation is largely affected by the credit standing of the commercial community of Canada, and it is no good mincing matters, it is no good trying to hide them, the commercial credit of Canada has suffered extremely. We agents realize that, because every week we are getting letters on this very point. We are told to get nothing from certain firms, we are asked why we went to other firms; and we are getting it pretty thick, and often we are between the devil and the deep sea, and we don't know always which is the devil but we get it both coming and going; and what we are anxious to do is to make as impossible as we can the fraudulent use of credit, we want to make it impossible if we can that the fraudulent debtor in Canada shall obtain the money of our firms for the purpose of his business through a system, a fraudulent system, but which, by the abuse of this clause has become a legalized system. I thank you sir, for this opportunity of placing before you our views.

By Mr. Irvine:

Q. May I ask if it is not so that under the present practice as you have outlined it, a Canadian trader may pay his debts to the bank by using the goods of the people of Great Britain?—A. Yes, there are numerous instances. It is a matter of comment, I do not like to say, but speaking in round facts it is a matter of constant experience that goods are bought, it is notorious in many cases, previous to an impending failure—this is a statement that would be absolutely difficult to prove, but we know the facts, and I am not going to mention any names, for the simple reason that while there are certain facts one knows, they are practically impossible of proving legally, but there are cases within our knowledge where firms here have gone over home deliberately for the purpose of buying goods, and have bought goods that are absolutely no use to their trade, and the moment they have got to Canada, as soon as the necessary documents were ready, they have been hypothecated, and the resulting money placed to the credit of their account to cover their overdraft or what they owed to the bank. That has been done repeatedly; and that is one of the things we wish to make absolutely impossible, and if we could get particularly the prevention of the hypothecation of goods unless they are paid for, it would mean that the vendor would then retain priority of his rights, and have a chance of getting a respectable dividend in the case of failure. As it is at present the resulting dividend largely ranges from nothing to 25 per cent.

Mr. SPENCER: I wish to ask if in his opinion the Canadian trader makes use of this means of getting credit because he cannot get credit at home?

The CHAIRMAN: You have answered that question already; you cannot answer it any better I suppose.

WITNESS: Not any better, except to this extent, the result has been of late years that a firm that would get turned down from a credit standpoint by the British agents in Canada can go home and get credit which is refused by the representative here.

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By Mr. Vien:

Q. May I ask you how you would suggest that under clause 86 the warehouse receipts would not be negotiable before the purchaser would have paid for all the goods covered by the warehouse receipts? Are not the warehouse receipts negotiable all over the world, and how are we to prevent a man from negotiating them before he has paid for the goods covered by them?—A. A similar procedure is covered in the Bulk Sales Act; if a trader wants to make a bulk sale he has to produce the receipted account for all that is represented in that stock or otherwise the bulk sale could not take place. Therefore if it was impossible to hypothecate these goods unless they are paid for before he could negotiate a warehouse receipt, he would have to produce the receipted account covered by the house.

Q. Is it done in England?—A. It is done in many cases in England.

Q. Does the purchaser of goods in England have to produce the receipt for the goods before he can discount or negotiate a warehouse receipt?—A. He has in the Bulk Sales Act.

Q. I mean any shipper who would send goods to England, would he be protected in the same way against the discounting of a warehouse receipt by the purchaser?—A. The goods that are shipped to England—

The CHAIRMAN: So many members of the committee have left, and this question must be dropped now or Mr. Shaw must come back in the afternoon, because there is no use proceeding further. We will adjourn until this afternoon at 4 o'clock. Mr. Bevington and Mr. East will go on this afternoon on the matter of Mr. Irvine's resolution. The further consideration of this clause is postponed. That is understood.

The Committee adjourned until this afternoon at four o'clock.

AFTERNOON SITTING

FRIDAY, April 13, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Would you please come to order gentlemen.

Mr. IRVINE: I was going to suggest that it might be a good idea to hear Mr. East this afternoon, and that would afford the members of this Committee an opportunity to read the evidence when it is printed, and they would be in a better position to question Mr. Bevington.

The CHAIRMAN: I think that is satisfactory myself. Is that the view of the Committee?

Mr. NEAL EAST, called and examined.

The CHAIRMAN: Mr. East will now make his statement to the Committee, and he will commence by informing you where he is from, and giving you introductory matter of that kind. I might say that Mr. East is somewhat hard of hearing, and if you wish to ask him any questions, you must speak very distinctly. And probably we had better follow the procedure as far as we can of allowing him to make his statement without interruption.

[Mr. J. H. Shaw.]

WITNESS: Mr. Chairman, I might say that I was born in Ontario. I resided there until I was about 20 years of age. I went out to Australia, and I spent some years in the mining industry in Australia, I came back to Alberta in 1908, and commenced farming and I have been farming in Alberta since 1908. I just want to say in opening the subject that the study of the banking system is becoming world wide; a number of prominent men are giving it considerable study, such men as Thomas A. Edison and others, and it was stated the other day that the money and banking question entered into all phases of our activity. I believe that one of the reasons why so much attention has been given to the banking and currency questions, is that the war has focussed the people's attention on the banking system. When the war was being carried on the people wondered where all the money came from to finance the war, and I think possibly that fixed their attention on the banking system in a large measure. Our banking and money system has grown up and developed side by side with our commercial system and it has been largely responsible, I believe for making our present development possible, developing what might be termed our mechanical age, or our machine age. Through the use of the money system, it has enabled us in my opinion to solve the problem of production. I would just like to draw your attention to what took place during the war. During the war there were a large number of people engaged in active production and during that time we supplied those soldiers, about three hundred thousand, with food, clothes and a vast quantity of materials to be destroyed. Now that is my reason for saying that in this system we have solved production. Had we been able to have carried that particular development over into the present time, when those boys returned to us, we could have greatly extended production, but instead of that, after the boys came home to settle on the land, we have conditions which are much worse than they were previous to the war because we have had a great deal of unemployment in Canada since that time, and I might say that I do not see any solution to the system through immigration. If immigration were beneficial to this country, when those boys returned from the war, naturally it should have brought about those conditions which we are told immigration would bring if we had a further influx of immigrants. On the contrary, it brought on this condition of unemployment. I might say it was one of the reasons. On the one hand we have in Canada almost boundless natural resources, and on the other hand we have willing idle workers. Now, we have all of the essential factors for production, yet there is one thing lacking to enable society to function properly, and that is a medium for exchange. We have at the present time on the one hand, full factories—the factories are full of goods, the store-houses are full of grain—and on the other hand we have people going short of that material for the simple reason that they have not the purchasing power to enable them to purchase and consume those goods that they have created. Our banking system has grown up and developed with our commercial system, and made possible the commercial system. It has developed another phase; through the interest system the banking institution is run for the benefit of the shareholders, it is run for the purpose of paying dividends. That is its aim. If you look at it in that light, our banking institutions run counter to the welfare of the people. It is interested in building up debts; that is one of its functions, to loan money, and the more money it loans the greater the amount of debts, and in that sense it runs counter to the welfare of the people. The people are striving to get out of debt, and yet on the other hand we have this system, which is building up debts over the people, and in that sense it runs counter to the welfare of the people. There are those opposing forces in society, and until we are able to remove those opposing forces, I do not see how we can

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have harmony in our present industrial system. Just to the extent that the financial system has been used to build up or create debts upon the people which this square on the chart represents (the burden of interest bearing debts which have accumulated on the people), and the general manager of the Bank of Toronto made this statement that the debts of Canada had increased eight times in eight years. If this system continues as it is at present, with the debts doubling up frequently, I fail to see how we can continue to carry that burden for any great length of time. A large portion of the interest we have to pay is paid indirectly, that is, it is added on to the price of the products that we buy, and becomes a part of the price, so that when we sell our particular commodities as farmers, and go out to buy or exchange those commodities for others, we find that we come in conflict with the financial system, and as a result, commodities pile up in the warehouses, and the result of that is unemployment. We have been going through cycles of industrial development, and on the other hand through a period of depression, and it would seem that under those cycles the goods pile up in the warehouses, and a period of depression follows until a great many of those commodities are consumed, until our banking institutions commence to re-loan money to start the cycle again by lending money. Just so far as the farmers of Western Canada are concerned, I might say the whole of Canada, our conditions are not due to lack of production because in the last year we have produced a greater amount of farm products than in any previous year. Yet in spite of that fact I think I am safe in saying that the farmers of Alberta are in a worse condition than they have been at any other time since I have been in Alberta. I am going to deal with this chart (Exhibit No. 7, page 92), the portion representing deflation. This chart covers a period from 1913 until 1921. This line (indicating on chart) represents bank credits. I might say that this chart is not drawn exactly to scale, because we had to do it hurriedly. This line (indicating on chart) represents bank loans from 1913 until 1920. In 1920 bank loans reached the peak. At this particular point (indicating on chart) in 1913 is when the loans reached their peak, or the peak of expansion. Then there was a contracting of loans until 1916. At this particular time (1913) there were \$1,100,000,000 bank loans. Then they gradually fell from the year 1913 until 1916 when they reached one billion or a curtailment of loans of \$100,000,000. Just one thing I want to point out in connection with that, that although—

Mr. STEVENS: Your curtailment figures, I think, are wrong.

Mr. IRVINE: \$100,000,000.

WITNESS: I want to point out in 1915, that although we had a very large crop in this year, the banks instead of increasing their loans to meet the additional amount of commodities that were to be handled, reduced them. They were reducing them at that time and reduced them to a billion in 1916. From 1916 they rose rapidly and in 1918 they shot away up, and in 1920 they had reached \$1,800,000,000.

By the Chairman:

Q. I suppose the victory loans are reflected in this?—A. These are bank loans (indicating on chart).

Q. The proceeds of the sale of Victory Bonds taken from the people would be reflected in this rise of deposits?—A. I presume to the extent that these people had advances on these Victory loans. Now in 1920 something happened. For some reason or other bank loans suddenly contracted. From September until January bank loans were reduced \$153,000,000. That was

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also in the crop moving period. Although the bank Act permits the banks to issue additional currency in the crop moving season, in this particular season you will see the banks reduced their loans \$153,000,000, but while they reduced the loans \$153,000,000, there is no evidence to show that the bank directors suffered any hardship. As a matter of fact in that period, loans to directors increased \$587,000. Now I have a statement or two here that I wish to read.

By Mr. Stevens:

Q. The reduction in 1920 in loans of \$153,000,000 to which you refer—you say that that was in the crop moving period, but you infer it was a reduction in loans to agricultural districts, or was it to industry and commerce generally?—A. I am speaking of the total loans of the banks, that there was a reduction of \$153,000,000 in the total loans from banks in that particular period, from September until January.

Q. From whom were those loans called?—A. I could not say, but there is this about it, I might say in connection with that, that I know there was a good deal of pressure brought to bear on the farmers. At the annual meeting of the Canadian Bank of Commerce, Sir Edmund Walker said in part:

“We cannot adjust prices without also bringing about a contraction in the volume of paper money and other instruments of credit, and so far as it is possible to enforce contraction without interfering with the production of what is really necessary, the reduction of prices will be facilitated.”

I just wanted to make this comment on that, that Sir Edmund Walker knew some time previous to this deflation that it was going to take place. This is a statement of the general manager of the Merchants Bank. He said in part:—

“And if nature is benevolent in the coming harvest, this country will benefit to an unmatured extent and we shall be reasonably in a position to view the period of deflation upon the threshold of which we stand with feelings of confidence as to our immediate future.”

The president of the Bank of Montreal, 1921, at the annual meeting said:

“The cost of this anomaly is still mainly the cost of labour. Unemployment is a natural corrective though painful and regretted by everyone.”

Here is another statement:—

	To Directors	Current and Discount in Canada
September, 1920.....	\$ 9,641,328	\$1,417,520,756
October, 1920.....	9,951,009	1,405,401,227
January, 1921.....	10,229,001	1,264,490,463
Increase from September, 1920,		Decrease from September, 1920
to Jan., 1921.....	587,673	to Jan., 1921, \$153,030,293.

By Mr. Harris:

Q. Just before the gentleman leaves the Chair, I presume you are leaving the Chair just now? I am going to refer to it again in a moment. I would like to ask a question before you get away from the subject. Is it not a fact that industrial concerns who had had assets and who were wanting to help the country with their Victory Loans, went to the banking institutions previous to that period of deflation and took out Victory loans, and in turn deposited those Victory loans with the banking institutions as security for their loans, over and

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above their assets, and would not that in itself tend to make that sharp rise, and then when that situation ceased, would not that in turn account for the decline in that particular way?—A. I am not making a statement that there is just one way of inflating and deflating the money system. There are many phases of the question which enter into it.

Q. I submit the impression left was more or less along this line. During times of crop movement the witness has said the banks were more wont to lend money until we came to this particular stage. He had in mind, and he left on my mind, that he was thinking primarily of crop movement, with regard to the banking situation, and when he got on the other side of the picture, he included along with agriculture, industries of all kinds. They were not included on this side. The witness, as I have followed him in going up this curve, to that high point, had in mind all the time agriculture; immediately he got on the other side of the curve he included three things. One of them was agriculture, and the other two was the industrial situation throughout the whole country?—A. If you will pardon me, I do not think I referred to any specific thing. I said the loans were reduced \$153,000,000 from September until the 1st January.

Q. Have you no figures at all that you could give us some idea of how much of that call loan was on industries, and how much was on agriculture?—A. I have no figures along that line.

By Mr. Irvine:

Q. Would that make any particular difference to your point?—A. No, it would not make any particular difference.

Mr. HARRIS: I submit it would.

Mr. IRVINE: I think he mentioned bank loans to all people, as I understood it.

Mr. HANSON: During the crop moving period.

WITNESS: Both periods.

Mr. HANSON: He said the farmers were pressed hard.

Mr. IRVINE: That was merely an incident. He did not mean to say that the farmers were pressed any more than anybody else.

WITNESS: I think the only statement I made in connection with it was that I was aware of the fact that considerable pressure had been brought on the farmers to pay their debts during that period.

Mr. HANSON: And all other people.

An Hon. MEMBER: Except bank directors, he said.

WITNESS: That is true.

Mr. STEVENS: It might be saving time if the witness would admit that he has not the figures to show the distribution of these loans.

The CHAIRMAN: I think he has admitted that.

Mr. KELLNER: They can be got.

The WITNESS: I wish to deal with the so-called inflation of the system during the time this line was rising from the one thousand million up to eighteen hundred million; where did the thousand million come from and how did it get into circulation? I have here an extract from an article of Dr. Adam Shortt, and I think Dr. Adam Shortt is one of the most painstaking writers on the financial institutions of Canada. This is what he said:—

“The credit expansion came mainly, however, through the advances made by the banks, especially the advances of credit to the Government

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largely in anticipation of future loans. Under the suspension of specie payment and taking the banking system as a whole, the indefinite continuance of this process is quite practicable because a credit once granted and poured by the issue of cheques into the general money volume of the country *never passes out of that circle until it is retired*, usually by conversion into another form, as when the bank advances are paid off from the further Government loans.

"Thus a credit of \$5,000,000, granted to the Government, is merely an entry in the banks' books, and when drawn upon by the Government in favour of munition industries, transportation companies and supply purveyors of all kinds, much of it may not leave the books of the individual bank involving nothing more than debit and credit entries in its ledgers. Even when the parties to whom the credits are transferred keep their accounts with different banks, the interchange of such credits between the banks through the clearing house practically offset each other in the long run. Thus a credit of even \$5,000,000 on Government account makes little or no drain on the individual bank, and none at all on the general circle of banks, unless it comes to a matter of foreign exchange."

I just read that for the purpose of showing one of the methods by which banks increase their loans. It was stated I believe by Mr. Bevington, and I am quite in accord with that, that loans become the basis of deposits or are merely the reverse of them, or words to that effect. Sir George Paish, speaking of inflation, says:—

"Of course, it is essential that we should all realize that at the present time these vast credits are not adding to the permanent wealth of the world and that for the greater part they are pure inflation, forcing up the prices of commodities, wages and profits.

By the Chairman:

Q. You are not arguing that this inflation was preferable, are you?—A. Not at all. In connection with that, I might say under the present banking system there was a crisis on, and it was necessary for them to find a means of exchange, and inflating the money system and giving the people plenty of money on that particular occasion brought prosperity to the country, and apparently the curtailing of the amount of money in circulation has the opposite effect; it brings on unemployment.

Q. Do you mean to say a deflation in volume of our credit and currency was not desirable after the war at some time? Was that line going to remain up there or keep going on?—A. Well, just so far as the prosperity of the country was concerned I can see no reason why those loans should have been curtailed at that particular time, at least so far as the agriculturists were concerned.

Q. Yes, but the people of Canada contributed through the proceeds of bonds by the subscription of Victory Bonds towards loaning money to the Government to pay for goods that were going to Europe; that was necessary. Well, the cause stopped; would you expect inflation to continue? These goods were not wanted.—A. I will cover that from a farmer's viewpoint. When deflation took place it came on very quickly; the farmer had his crop practically harvested, and when deflation took place he had many obligations to meet. He expected to get a high price for his wheat, and through deflation he received almost a dollar a bushel less than he expected to receive, and for that reason he was unable to meet those obligations; as a result of that the purchasing power of the people was very much decreased.

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Q. The purchasing power of what people?—A. Of the farmers.

Q. You are talking about an exportable surplus?—A. I don't think I mentioned exportable surplus.

Q. You did not say it, but you must have referred to it, because you are referring to grain production?—A. I was referring to deflation reducing the purchasing power of the farmer to the extent of almost a dollar a bushel, and to that extent it prevented him from meeting the obligations which he had incurred previous to that time.

Q. But the purchasing power which the farmer really wanted was in the people of Europe, who were the buyers of your grain, is not that the fact? They did not have the purchasing power?

By Mr. Irvine:

Q. Mr. East, is not this your point, that you are unable to see any reason why credit should have been contracted at that time. If there is anybody knows why it was necessary to do so we will be glad to know later why it was necessary?—A. I do not know any reason why it was contracted at that particular time.

Mr. HUGHES: The witness refers to deflation at that particular time. Could he give us what in his opinion was the cause of the deflation?

The CHAIRMAN: You have to ask him that yourself.

Mr. IRVINE: There is a gentleman here wants to know what you think was the cause of deflation at the time indicated on the chart?—A. What I think was the cause of the deflation; well, the cause in my opinion was, at least one of the causes, was the curtailment of credit to the farmer, that the banks asked him to pay his obligations, and when the banks put pressure on the farmer of course as a result of that it would naturally decrease the amount of money on loans—I dare say the banks were applying pressure to other concerns; I understand they were.

Q. Why would the banks want to do that, in your opinion; that is the question I understand?

Mr. HUGHES: Yes, that will be a part of it.

The WITNESS: That is rather a large question to answer, but I will just cover it briefly; during the inflation process a large amount of bonds were bought, the money system was inflated and bonds were bought with what we were told was about 47 cent money. Those bonds then after being bought, the system of deflation would naturally have the effect of forcing the bonds out of the hands of the farmer to assist in meeting his obligations at the bank; when further deflation is carried on it will then have the effect that it will require two bushels of wheat to pay the interest on that bond, where otherwise one bushel would have paid it.

Mr. IRVINE: That is a pretty good reason.

By Mr. Hughes:

Q. I understood the witness to say in the earlier part of his remarks that the creation of debts, the making of loans to farmers, I suppose, and other people, was a bad thing, that he disapproved of it, he disapproved of the principle of interest, interest being paid, to anybody or received by anybody?—A. I will cover that later.

Q. I understood him to say, I don't know whether I was correct or not, that inflation and debts were a bad thing, and I also understood him to say that deflation and curtailment of debts were a bad thing, and would like to know which is really the bad, because they both cannot be bad at the same time?

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—A. I think my statement was that the interests of the banking institution which builds up the debts for the people, and the interest of the people run counter to each other; that is the expression I used. The people on the one hand are striving to get out of debt, and the banking institution's interest and the interest of its shareholders is to build up indebtedness: If you want to go any further into that particular phase of the question why the banks are interested in deflation and it is also their interest to create debts, I could do that also.

By Mr. Stevens:

Q. Let us have it. I would like to ask, before we leave this interesting subject of inflation, I understood the witness to say a few moments ago, that during the period of inflation we had prosperity, that when the period of deflation came it resulted in hard times and unemployment, to use his own words. Am I quoting you right?—A. That was about the statement I believe.

Q. Here is a question I would like to ask you, because after all it seems to me the crux of the whole discussion: Do you and those you represent advocate the continuance of inflation in order to continue prosperity?—A. I will tell you what we advocate is this, that the people should have enough money to enable all of the people to do business on a cash basis.

Q. On the basis then you would follow the process followed in Germany, in Austria, in nearly all the European countries, and in Russia, namely the issue of currency against this security or the other, continuing that prosperity, artificial prosperity I call it—is not that right?—A. That is not my idea.

Q. Don't you think, or won't you admit the following of your process of reasoning would result in that?—A. That the following of the process of inflation?

Q. The process of reasoning would result in that?—A. As a matter of fact I am going to try and cover that a little bit further on. If I could just go ahead with it I will cover that as near as I can, and if you wish to ask questions—

Mr. SPENCER: I would suggest we let the witness go on and ask questions afterwards.

Mr. STEVENS: I must submit we ought to have the privilege when we are going through a chart of this kind, and the witness proposes to leave it, to satisfy the committee as to the meaning, otherwise the witness can make his statement.

The CHAIRMAN: It a very good injunction, but very hard to observe.

Mr. STEVENS: Absolutely impossible in my experience.

The CHAIRMAN: Proceed.

WITNESS The question as I understood was did I approve of continued inflation, and my answer to that is, I do not; that is what I mean by continuous inflation is continually extending that line upwards.

Mr. STEVENS: Where would you stop?

Mr. WARD: I think what the witness means to point out to us is that while that deflation went on we were encouraged as a people in Canada to use the money. I want to tell you men have had the experience of bankers coming out on to the streets in front of their banks and soliciting farmers to borrow money. I know of one banker soliciting a farmer to borrow \$5,000 to buy cattle. I am merely mentioning that by the way.

The CHAIRMAN: That is it was a practice in the west for bank managers to invite you in to borrow.

Mr. WARD: There were hundreds of bank managers in Western Canada who were doing that. The point is this, the people of Canada were encouraged, not only agriculturally speaking, but commercially speaking, to use this money,

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and this over-issue of currency, if you like; we went on through the years 1916, 1917, 1918, and 1919 and the early part of 1920, and we were encouraged to use this money in the development of various industries in this country. Is not that a fact? All right. I take it for granted that all the industries of this country were using this over-issue of money.

Mr. VEIN: Against what security were the banks pressing?

Mr. WARD: That is by the way. In September of 1920 as the witness stated, we had reached a point, we had built a structure in this country, and through the withdrawal of that one hundred and fifty three millions of dollars, what happened? We immediately began to undermine the structure that the intelligence of this country along with the finances of this country had built up. I think that is what the witness means to say.

The CHAIRMAN: The point the witness makes is I think that the deflation was too rapid. That has been raised in all parts of the world. There are two views about that of course.

By Mr. Irvine:

Q. May I ask the witness one question; from your point of view do you mean to suggest that you are not so particular about the fact that inflation and deflation did take place but that it took place at the behest of bankers without regard to the industrial needs of the country?—A. Yes. I don't think they considered the people of the country whatever either through the process of inflation or deflation. To my mind the private control of the banking system is wrong; the whole structure is wrong; it is not built on such a basis as is satisfactory to the people, that is the producers of the country. I will deal briefly with one attempt that has been made to institute a proper system. I have here a picture of the Guernsey Market House. I am going to explain briefly what was done in connection with the Guernsey Market House. In 1920 conditions in the Island of Guernsey were much like they are in this country at the present time. They had on the one hand plenty of natural resources, and on the other they had idle people; they wanted to build the market house, and they appointed a finance committee to find ways and means of financing this particular building. The committee reported to the Governor that they could see no way of raising the money other than to bond themselves to foreign countries; but they laid the matter before the Governor, who took the matter up with them something like this: he said, "On the one hand you have the material to construct this building, you have the clay to make the brick, you have the rock from which to cut the stone, you have the sand, lime, and all those things." They said "Yes." He said, "Well, then, have you got the skilled mechanics to construct this building?" They said, "Yes, we have the skilled mechanics and they are idle." "Well, then," he said, "why should we bond ourselves to foreign money lenders for something that does not enter in any way into the construction of the building to enable us to assemble the material?" He said, "I have a better proposition, and is it this: that we issue 5,500 pounds," that was the estimated cost of the building, "in government notes and we will proceed to erect the building." That was done. The notes were made redeemable over a period of ten years. They were to be redeemable by rent of the stalls and excise duties. They went ahead, built the building, paid the workers and people who constructed the building with those notes, and then they were to be redeemable. Well, the experiment was successful in every way, and at the end of six years all the notes had been redeemed by rent of stalls alone. Now, the Governor of the Island sought to impress the fact upon the people's mind that they could assemble the material and construct their building without having to pay any interest to money lenders. So in

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order to impress the fact on their mind, they held a public celebration, and at that celebration those notes were burned. They used this kind of money for a number of other purposes. They built colleges, they built wharves, and widened streets, and so on, used that for very many purposes, and it had the effect of bringing prosperity into that island. They issued a total amount of 80,000 pounds of these notes, and there is just an extract here that I wish to read from the book in connection with it:

"There are still circulating in the Island one pound notes to the amount of \$200,000. These notes have been in circulation over a period of ninety years at no cost for the interest. Had they been converted into bank loans, as was the 75,000 in notes—"

That is 75,000 of the previous issue was converted into bank loans.

"The inhabitants would have paid the bankers over \$550,000 in interest, and still owed the original amount of \$200,000."

Our government issued money after the same pattern during the war, ten millions to the Canadian Northern Railway, six millions to the Grand Trunk; they issued ten millions to meet maturing obligations. The ten millions they issued to the Canadian Northern Railway, I understand that that became part of the purchase price. Now, this is the question, what difference would it have made to the people of this country had they bought the whole railroad with those Dominion notes? To whom would it have done any injustice? Had they issued Dominion notes and bought the entire railroad with those Dominion notes, would it have done any injustice to any person within the country?

The CHAIRMAN: Who would redeem these notes? Notes must be redeemed some time and by somebody; who would redeem them?—A. Freight rates.

By Mr. Hughes:

Q. Supposing we follow that statement with regard to the issue of notes or bonds in the Island of Guernsey; they apparently were within the means of the government of the country; they did not issue more at any time than the government was prepared to redeem. Was it the impression of the witness that the government of that Island could go and issue any amount of these?—A. My purpose in bringing this up was not as a remedy, but just to show that it is possible to assemble material without it being necessary to bond ourselves to the money lenders.

Q. For a certain amount, within the means of those who issue the bonds to pay them, to carry on that work; but that could be carried on so that the Island of Guernsey could become bankrupt.

The CHAIRMAN: Bankruptcy would be inevitable.

Mr. HUGHES: Yes; it appears to me that the idea of the witness is that that could be carried on indefinitely, is that correct?

Several HONOURABLE MEMBERS: No, no.

Mr. KELLNER: Some of these gentlemen are trying to argue that the banks are the only people who have intelligence enough to say what that amount will be.

Mr. STEVENS: I would like to ask the witness a question; he referred to the issue of several millions of dollars of notes, and suggested that the whole of the Canadian National Railway System could have been bought by an issue of Dominion notes—that is correct, is it not?—A. My question was would it have done any individual any injustice if that had been done?

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Q. Of course that is a rather ambiguous statement, but I presume it represents his view. A little while ago the witness stated through this process of inflation the dollar was worth 47 cents. Had the government of Canada purchased the National Railway with an issue of Dominion notes and financed other processes or matters in the same way, would it not result in the lowering of the value of that note according to the amount that you would issue, as has obtained in every country in the world; would not that be the result?—A. My reply to that would be, is it any worse for the Dominion Government to inflate a medium than for privately owned institutions?

Q. I want to get away from that; would not that be the result?—A. Of inflating the system?

Q. Yes?—A. Yes, naturally it would inflate the system. But this is my point in connection with inflation, that if it were inflated through the process of government, the people would derive the benefit of it; it would not create an interest bearing debt; whereas if you inflate the system through private institutions it creates a great burden.

Q. A person disposes of a real asset in the form of grain, horses, cattle, lands, houses, anything at all, for a given sum say of \$1,000 of Dominion notes; the Dominion goes on and by this process you suggest buys the National Railway system, buys out the banks, buys out industries, and this, that and the other thing, by issuing Dominion notes, according to your own statement a moment ago by that process of inflation you lower the value of that note; now, then, having gone on with this process, these people who sold real property a short time ago for \$1,000, would find that the value of their notes that they had received has been gradually reduced according to the issue and inflation of the currency; these people would be injured; that is what ruined millions of people in Germany, Austria, and all over Europe. Now, the point is, does the witness advocate a process of that kind here; that is what we want to get at?

WITNESS: I did not make any proposal that when we go out to issue Dominion money, that we should go on issuing it indefinitely, without having any security behind it, because if you will remember that when Mr. Bevington laid down our proposition, he stated specifically that they would accept security. Bear this fact in mind, when I gave you the illustration I did, I told you it was purely and simply an illustration of what could be done; I am not trying to build a remedy on top of that system. Mr. Bevington laid our remedy down. Under that remedy they would accept securities and have them re-discounted.

By Mr. Stevens:

Q. Now, I will ask one more question and no more this afternoon. This is the point. I asked it from Mr. Bevington and he did not answer me yesterday. I ask it of you to-day: at what point do you propose to stop? That is the whole question.

By the Chairman:

Q. Mr. Stevens, perhaps we can get at it in this way. You say the Government might have purchased the Canadian National Railway system and issued in payment therefor, their own notes. Say that would be \$600,000,000. And you suggest that that \$600,000,000 in paper money be issued to the public, to the owners. Supposing I had a little interest in that road, and I got a thousand dollar Dominion note for my share. What would that be worth? Suppose after a week I wanted to buy something with part of my money, what would that note be worth, what would be its purchasing value?—A. That is exactly the condition that arose under the inflation of our privately owned institutions.

[Mr. Neal East.]

Q. Do you mean to say that I would really be able to get a thousand dollars' worth of anything after \$600,000,000 of paper with nothing in gold behind it, was put on the market to the public?—A. I am quite aware that it would result in a certain amount of inflation, but I cannot see wherein it would do the rank and file of the people any injustice.

Q. It would do everybody an injustice?—A. Well then if that is so, this inflation by the present banking institutions is an injustice.

By Mr. Irvine:

Q. Mr. Chairman, will the witness tell us why in his opinion the value of notes is lowered by the Dominion issuing new notes? How does it come that he lowers the value of notes?—A. How does it lower the value of the note? Is that your question?

Q. Yes.—A. Well under the equation of exchange, to double the volume of money, or to double its velocity of circulation, will double prices.

Q. In that case the very same thing would occur, no matter who owned the bonds, whether they were held by individuals or by the nation?—A. Yes, that did occur.

By the Chairman:

Q. And our money, for the purpose of making international payments, would suffer a heavy discount, I suppose?

Mr. BEVINGTON: We cannot pay with that.

By the Chairman:

Q. Would not that be correct?—A. What was the question?

Q. That our money would be at a heavy discount?—A. It was at a discount. Yes, I presume because of the inflation.

By an Hon. Member:

Q. I would like to ask the witness if the credit of the country would be in a worse position after having issued a certain amount of Dominion notes, than it would be if it was to issue a mortgage or sell other credit?—A. Do you mean which would involve the credit of the country?

Q. The notes are no more of a reflection on the credit of the country than a mortgage or any other credit document, such as bonds.—A. In the case of the country issuing notes, it would do away with that huge interest burden, and we hope to find some way from under that.

By Mr. Irvine:

Q. Then would not Canada be in a better position had she taken that course instead of the one she took?—A. Yes.

By Mr. Spencer:

Q. Otherwise, Mr. Chairman, you are advocating exactly what the United States Government is doing, in issuing its tax-free bonds, in regard to that \$600,000,000 of notes.—A. Yes, it is much the same.

Mr. BEVINGTON: Not tax free.

Mr. SPENCER: I should have said non-interest bearing.

The CHAIRMAN: It is a bond redeemable in gold.

The WITNESS: I take this stand, that if a Government bond is good enough for the investor, that a Government note ought also ought to be good enough for the people.

By the Chairman:

Q. What about the French and European currencies today?

[Mr. Neal East.]

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Mr. IRVINE: Mr. Chairman, the discussion would be more easily followed if we could have one question at a time.

By Mr. Hughes:

Q. May I put this question. I think we are all here in the interest of the country; let us assume that anyway; and to get the best solution we can of the business of the country. Now will either of these gentlemen agree with this statement: that if the banks or the Government or any other body—I suppose there is no other body in Canada that could issue notes—if they issue notes beyond what the trade and industry of the country could take care of, beyond the amount legitimately required for the legitimate business of the country, would not the over-issue necessarily reduce the value of the instruments so issued? Is that a correct statement? Will both these gentlemen agree with that?

Mr. BEVINGTON: That is purely a matter of regulation.

Mr. HUGHES: Not of regulation, but of need for the industrial and commercial business of the country. In industry I include farming.

Mr. BEVINGTON: The extension of that is purely a matter of regulation.

Mr. HUGHES: I don't understand that.

The CHAIRMAN: Well, perhaps you never will Mr. Hughes.

The WITNESS: Just so long as a people have commodities which they desire to exchange, I think that that medium of exchange should be provided.

By Mr. Hughes:

Q. And no more than is necessary.—A. Just enough to make all those exchanges possible. At the present time that is not the condition, because if we will go back to Alberta now, there are farmers out there who want to get seed to sow their land; they cannot get that seed because they have not the money; they have got to go to the banks, and they are dependent absolutely on the banking institutions as to whether they shall get seed or not. Bear this fact in mind: the banks have not got the seed, it is other farmers who have it; yet under this system the farmers have got to go to this banking institution and they are wholly in the power of the institution as to whether they shall get seed or not.

Q. Then it comes back to this, that the farmers cannot get all the loans they wish to obtain?—A. They need to obtain.

Q. Put it that way, all the loans they need to obtain. Then have they got security to give for these loans?—A. In many cases they have security, but we are looking for a way out of debt not for a way to get in further. (Hear, hear).

Q. How in the world would a farmer or anyone else borrow money without getting into debt?

The CHAIRMAN: I think we had better let the witness go on with his statement.

The WITNESS: I have a statement that has been prepared by the Edmonton Economic Society dealing with the debts of the Province of Alberta. They have gone to a good deal of trouble to collect this material and there are some things that I want to put before you. The debts of the Province of Alberta: Provincial debts, \$73,000,000.

By Mr. Spencer:

Q. Have you authentic sources from which this information is taken?—A. Yes, the source of the information is shown on the outside cover. Number 1,

[Mr. Neal East.]

the source of that information is the Alberta Budget statement of 1912. Now as we go along if any one requires the source of the information I have it here.

By Mr. Vien:

Q. Is that 1912? You said 1912.—A. 1923. The people's Economic Educational Society, February 27th, 1922. The information applies to 1922.

Alberta Provincial Debt \$73,000,000. I am leaving out the thousands.

Edmonton, \$33,000,000.

Calgary, \$23,000,000.

Lethbridge, \$3,000,000.

Medicine Hat, \$3,000,000.

Red Deer, \$281,000.

Westaskiwin, and 55 small towns, \$3,099,000.

Or a total of \$139,000,000.

Rural municipalities and school districts not known but very considerable.

That amounts to a total interest bill of \$11,122,000 on the Alberta Provincial debts.

Then there is life insurance, \$12,000,000.

Fire insurance, \$12,000,000.

Mortgage loans given as \$90,000,000.

Farm implements, estimated \$75,000,000.

Alberta share of the Dominion debt, \$224,500,000.

Industrial investments in Alberta, \$66,000,000.

A total of \$715,000,000.

And a total interest bill of \$42,912,000 on the basis of 6 per cent.

In addition we have the C.P.R. declaring a dividend of \$36,000,000, partly made in Alberta.

And the Hudson Bay Company declaring a dividend of 45 per cent, also largely made in Alberta.

The agricultural wealth is estimated at \$814,000,000, some part of which will bear interest.

In 1910 the Province of Alberta had no bonded indebtedness. Premier Greenfield in his budget statement of March 13, 1922, said the Alberta provincial debt is double that of 1914.

Then in connection with business failures.

There have been in Alberta 46 business failures in 1920 with liabilities of \$817,000.

One hundred and thirty-six business failures in 1921 with liabilities of \$2,426,000.

1922 figures given in the *Edmonton Journal*, 100 failures, liabilities \$2,430,000.

1923, one month, January, 221 failures. That is greater than the combined totals for the two years 1920 and 1921.

The retail merchants' statement, February 13, 1922, to the Edmonton City Council, was that 75 per cent of the merchants were insolvent. And during the first week of February, 40 sales of bankrupt stock were being offered in Edmonton. Among the reasons given in Bradstreet's report was shown, "insufficiency of capital" for nearly fifty per cent of the failures.

Mortgage foreclosures \$72,000,000.

Soldiers' settlement loans, Edmonton district, 611 farms foreclosed, value not known.

Nor are the particulars for the rest of the province.

The provinces have, through the tax sales, over 100,000 subdivision lots and 10,767 farms, comprising around 1,653,000 acres.

[Mr. Neal East.]

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The losses of farmers and business men for smaller amounts are not available but would reach a considerable amount, and depreciation of farm live stock would reach an immense total.

I might say that in the year 1920, although deflation had not carried on for any length of time, that farm live stock depreciated in value \$274,000.

Now this is Alberta's production:—

In 1921 agriculture \$204,000,000.

Industrial, \$82,000,000.

Coal, \$25,000,000.

Fisheries, \$529,000.

Furs, \$1,560,000.

Or a total of \$313,815,000.

Or a per capita of \$560.

You will notice in that connection that Alberta is producing considerable wealth, but in spite of that fact she is becoming more deeply involved.

MR. RYCKMAN: Mr. Chairman, if the witness will pardon me, I rise to make a suggestion. I know that the province of Alberta at the present time is in the money market to borrow money; at least before the end of the month there will be an application for the province of Alberta to borrow. I am a member of this Committee, and I am not anxious that anything of this nature should go abroad. It may be interesting and important that we should hear the facts, but I suggest that any statement such as has just now been given shall be excluded from the report.

THE CHAIRMAN: Well, I do not know, Mr. Ryckman, what to say to that. I do not see much good in giving the Committee those facts, because it could have been given in a few words, the substance of it.

MR. RYCKMAN: We won't do any good by fouling our own nest. It is an old proverb.

THE CHAIRMAN: No, I do not like it myself.

MR. SPENCER: At the same time, any corporation or concern that is going to loan money to Alberta, you may bet your last dollar that they know all these facts.

THE CHAIRMAN: Yes, I know, but it all depends on how you interpret facts, how they are placed before the public.

By Mr. Stevens:

Q. Could we learn what is the argument, or the object of placing these figures before us?—A. My purpose in putting those figures before you was to show you what to my mind appears to be the hopelessness of the situation. That top square in the diagram represents the indebtedness of the Dominion of Canada, and under the present system I can see no way to enable the people to get out from under that huge burden of debt, and under this system, if I sum it up correctly, the debt must continue to grow. We are looking for a way out and that is why we have put that suggestion of Mr. Bevington forward as a method of enabling us to reverse the process and try to get out of debt.

Q. Do you suggest repudiation of debt?—A. No, I think repudiation of debt would be a great hardship on a great many people. I believe that under a proper system we could reverse this process. We have had a process of building up debts all over the country, and I believe it possible to reverse that process and gradually eliminate the debt; but in my opinion it is not possible to bring about reform through the system that has made reform necessary.

[Mr. Neal East.]

By Mr. Hughes:

Q. Mr. Chairman, this is the last statement I will make. If I understand the witness aright, he and Mr. Bevington are trying to advocate a principle that will increase that debt. He says the farmers cannot get money for their needs, that there should be a greater issue of Dominion notes, that is, that the debt should be increased, the obligation of the country should be increased.

Mr. BEVINGTON: Then your understanding is wrong. I must say that.

Mr. HUGHES: If that is not correct, then what is correct? These are the statements made by these two gentlemen, and there is no doubt about that fact.

Mr. BEVINGTON: In your understanding.

Mr. STEVENS: Then put your questions to the witness.

By Mr. Hughes:

Q. Does the witness think the conditions would be improved by the Dominion Government, for instance, issuing a greater volume of money, a greater number of notes, and lending or giving the notes to the farmers of Western Canada to enable them to buy their seed grain and to enable them to buy the other things they require, is that the wish of the witness?—A. There is one thing that you include in that. Did I advocate giving them the money?

Q. Either giving or lending it.—A. We don't advocate giving them money. We advocate loaning that money to them on securities. The value of the securities may be determined by the Government, or the ratio on which they would loan.

Mr. WOODS: Mr. East fails to distinguish between better credits and more credits.

By Mr. Irvine:

Q. Would Alberta be in a better position if it did not have to pay \$44,000,000 annually in interest to someone who does not give any service?—A. I think it would increase our purchasing power to that extent.

Mr. STEVENS: Is that not repudiation of debt? I think you might as well understand that. If you avoid paying the interest on your bonds or indebtedness, is not that repudiation of debt?

Mr. BEVINGTON: No.

Mr. IRVINE: It is not?

Mr. BEVINGTON: No.

The CHAIRMAN: I think we had better let Mr. East finish and we will take his views and weigh them.

The WITNESS: If that is a question I would like to answer it. If the Government issue Dominion notes, would it not be repudiating a debt? We will say the Government agreed to redeem some of its Victory bonds. The persons who presented those bonds to the Government would receive Dominion notes instead of Dominion bonds. Wherein would the repudiation take place?

The CHAIRMAN: Mr. Stevens says virtual repudiation.

By Mr. Stevens:

Q. I will tell the witness in two or three sentences where repudiation will take place. You cannot take Alberta alone. Let us take Canada for a change. We have \$2,500,000,000 of Dominion indebtedness. You suggest that we pay Alberta and we might as well pay the rest of the Country in Dominion notes. Pay off this interest bearing \$2,500,000,000 and issue the same amount of bonds, and I will tell you this, that the people who bought those bonds, whether

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they are Alberta farmers or Toronto manufacturers, won't have five cents on the dollar, and it will be virtually 95 per cent repudiation and you cannot escape it.—A. I think if you will pardon me, that was your suggestion, that we pay off all those bonds.

Q. You just made it yourself, man.—A. I just gave an illustration of that particular bond. I said a moment ago that we should reverse the process and gradually eliminate the indebtedness of the country. That is quite a different thing to indiscriminately issuing Dominion money.

By the Chairman:

Q. No, but you said that there was no distinction between having 2½ billions of bonds held by the public and 2½ billions of Dominion notes issued.

MR. BEVINGTON: In so far as the credit of the country is concerned.

THE WITNESS: The credit of one is just the same. They are both based on the assets.

MR. STEVENS: What? The credit would be the same?

THE CHAIRMAN: Oh no, that is foolishness.

By Mr. Spencer:

Q. May I ask a question, Mr. Chairman? On what is a Dominion note based?—A. On the assets of the Country.

Q. And on what is a Dominion bond based?—A. On the same assets.

MR. SPENCER: The same thing, thank you.

THE CHAIRMAN: The Dominion notes up to a certain amount are based on gold.

MR. SPENCER: Are they payable in gold?

THE CHAIRMAN: Yes.

MR. SPENCER: Could we pay on that scale?

THE CHAIRMAN: We could not, if we were called on to pay at once, no. But the Dominion notes are issued at present in conformity with a Statute which requires a certain amount of gold to be behind them. To say the notes are issued on the security of a country does not mean anything. That won't keep them at par.

MR. IRVINE: Mr. Chairman, am I to understand that you and Mr. Stevens mean to suggest this to this Committee that we are on a gold basis in Canada at the present time?

THE CHAIRMAN: No, I do not say that.

MR. STEVENS: Mr. Irvine is trying to confuse this whole issue. Dominion notes, or British notes, or American notes are based upon a certain general normal value of gold reserve against those notes. That normal value of gold reserve is based upon the general experience of what the country will be called upon to pay. No country is going to be called upon to pay their whole issue of notes. Anybody knows that. And furthermore, when you inflate your currency, Mr. Irvine knows this perfectly well, but seeing he has raised the point we might as well deal with it,—you widen the breach between the gold reserve and the amount of your notes; therefore the purchasing value of this inflated currency is less valuable, its purchasing power is less and that is what causes the rise in prices. The witness said a moment ago—and this is what I am trying to get at in this whole discussion, so we will know where we are heading for—he said there was no difference between issuing Dominion notes and having outstanding Dominion Government interest bearing bonds. I submit to this Committee or to any intelligent person, that if you issue Dominion notes to

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redeem any large quantity of your outstanding interest bearing bonds, you would inflate your currency, so that the value of that currency received at a given point before the issue and at a point later would be perhaps in the proportion of 95 of 100 depreciation.

Mr. IRVINE: I do not think Mr. Stevens is quite in place to say that my object was to becloud the issue. My object was for the moment, to bring out the view that the witness is trying to express. If Mr. Stevens or any other member has a better view, we will be glad to hear it.

Mr. STEVENS: That is wearisome.

Mr. IRVINE: He says that the gold in any country is only part of the assets as a whole, whether we are dealing with Dominion or any other kind of bonds, they are both included in the National asset, that is the point he is trying to make, and I think has made. Mr. Stevens has not touched that point in his rebuttal. His argument about inflation is all clear. We have seen what has been put before us, showing the pyramiding of our debts on a gold basis. He knows you are not demanded to pay in gold, that the Dominion Government has freed you from the obligation to pay in gold.

The CHAIRMAN: Mr. Irvine wanted to make the point that there is a distinction between paper issued by the Government, and the bonds issued by the Government, which are purchased for the people. I suppose he did not want to let anybody go with the idea in mind that there is no distinction. I do not think that it is right to say that the Dominion notes are secured by the assets of the country. They will not keep paper money up to par unless there is some redemption behind it and a source of redemption that is immediate.

Mr. IRVINE: What source of redemption could be behind it greater than the assets of the country?

The CHAIRMAN: That is not realizable quickly enough. There must be that amount of gold behind notes, which experience indicates will be sufficient from day-to-day to meet the redemption.

Mr. IRVINE: The Government says it cannot be and why not?

Mr. STEVENS: That again is beclouding the issue without any question. Here are the facts. During the war it was found we were exporting money, that is that people were taking gold out of the banks, putting it in their pockets, and going to Seattle and border cities and taking it out of the country. The Government stopped that process by an arbitrary law, and very properly so. I imagine I see gentlemen to-day who would be willing to take gold and go over to Europe where there is a demand for it to an extent that cannot be conceived here, take it over there and gain the advantage of it. We say "No," we will not permit people to do that, and by law we have stopped them, and as long as that gold is in the hands of the Government, in the state, and in the hands of the Government, it is there for the redemption of their notes. In fact a few years ago, people would not handle notes. They wanted gold, particularly in the United States; but to-day people do not want to carry gold around. Why? Because they know the gold is there.

Mr. IRVINE: The gold is not there.

Mr. STEVENS: To a normal extent.

Mr. IRVINE: Now I see who is trying to becloud the issue, the man who dares to come and tell us there is gold, beclouds the issue. Mr. McKenna announces they are not going back to the gold standard at present. The facts will bear out Mr. McKenna's view and I am going to bring out through the examination of Mr. Bevington this gold basis question that was raised by Mr.

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Stevens yesterday. I submit the witness be allowed to go on and we take this up under its proper head.

Mr. KELLNER: I would like to ask what stabilizes currency in countries that do not recognize the gold standard.

The CHAIRMAN: In Germany, in Austria, and all central European countries they are not on a gold basis to-day, and you will find where it took four marks to make a dollar prior to the war, now it takes twenty thousand. England prohibits the export of gold and gold currency for the reason she is not on a gold basis. When she reaches the time when gold can leave the country, the pound will be worth \$4.86.

Mr. KELLNER: How would you deal with China?—A. They are on a silver standard. They fluctuate more than other countries.

Mr. KELLNER: Still I think we are putting forth very strenuous efforts to increase our trade relations with him.

The CHAIRMAN: There is only one medium of money that will help people trading with one another, and that is the kind of money that people have faith in.

By Mr. Coote:

Q. If somebody would answer the question it will clarify the position a little. Would you state just what the gold standard is? Someone might be able to give us an explanation. There is a great deal of difference of opinion as to whether Canada is on a gold basis.

The CHAIRMAN: Suppose you try that yourself. You were in the banking business yourself at one time?

Mr. COOTE: I am looking for information. There are gentlemen here who know more of the banking business than I was privileged to know, and it was their opinion I was looking for. There are a number of members of the Committee who would like to know just what percentage of gold they must have.

The CHAIRMAN: Being on a gold basis, I think merely means this: that if a note is issued by a Government the holder of that note has a right to have it converted into gold. If a bank issues its note and we are on a gold basis the holder of the note has the right to go to the bank and have it converted into gold. When that does not obtain, you are not on a gold basis, and in a technical sense, that is true of Canada to-day, at the moment. Is that pretty nearly right Mr. McKenzie.

Mr. COOTE: Is there any country to-day which is on a gold basis?

The CHAIRMAN: The United States is. I think Spain is, probably the Netherlands.

Mr. LADNER: I have taken the trouble in the last few days to find out, and I am advised you can take a Bank of England note and go to the bank of England right to-day, and get gold for it. I have it on the statement of one of the directors of one of the largest banks in England who was here a few days ago.

Mr. STEVENS: Would it not be advisable on this subject to have gentlemen, such as Mr. McKenzie, and I had in mind possibly Sir Thomas White, or some other authority that we think the Committee would choose to listen to give us very pertinent information on that subject.

The CHAIRMAN: The bankers are to be called. That has been settled. I was just going to remark that Mr. McKenzie, an old experienced banker happens

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to be here, and if the Committee desires, I would ask him to answer Mr. Coote's question, not to make a general statement.

Mr. McKENZIE: May I ask if you would repeat the question.

The CHAIRMAN: Mr. Coote wants to know what is meant by saying a country is or is not on a gold basis.

Mr. McKENZIE: I think you gave a brief but accurate answer to that. You have an American gold note, you can convert it into gold. You have the right to demand gold and you will get it. If you have practically any Bank note in the United States, you can get gold for it, if not in one operation, at least in two, but in Canada, you cannot, because owing to exigencies of the war, gold payments were suspended in Canada. It is news to me you can redeem on a gold basis, I did not know that. As to what constitutes being on a gold basis, in the matter of gold reserves against the currencies, I do not know that there is any standard amount recognized in all countries, but the figures for the notes for Canada, the figures before the war for Great Britain would be the same. If precise information on this subject is wanted, I would not be in position to answer to-day, but the information can be easily got.

The CHAIRMAN: I could supply that myself at the next meeting. I have it in my room.

By Mr. Irvine:

Q. The value of currency, supported by gold, is the value it gives to it in foreign countries? Is it not? That is one of the great values of the gold currency?—A. Yes, currency is the value, because you can convert it into the currency of other nations.

Q. Gold is an international currency?—A. Yes.

The CHAIRMAN: That is, a gold dollar is a gold dollar in any country really?

Mr. McKENZIE: Yes, and convertible at par.

By Mr. Irvine:

Q. May I ask if it is not so that we are only on a gold basis, can only be on a gold basis in any country to the extent that people do not demand redemption in gold and add to that fact the credit of the country, as Mr Stevens pointed out, which depends on its gold reserve. Is not the credit of Russia just as good now as it ever was because it has all the gold so far as we know that it had before?

Mr. STEVENS: In the first place, I did not say that, but we will let it go. In the second place, I only mentioned Russia once.

Mr. McKENZIE: You wish to know whether countries on a gold basis are in fact in position to pay all their liabilities in gold at any time? No.

Mr. COOTE: Do you think there is enough gold in the world to-day for practically all the civilized nations to get back on a gold basis?

Mr. McKENZIE: I do not know that anybody's off-hand opinion on a subject so large would be very valuable, but I think it is perfectly evident that certain countries in the world are aiming to get back to the gold basis as soon as they can, and the depreciation in their currency at the present time, expresses about the market opinion of the distance they are of getting back to the gold basis. In Great Britain it is slightly. In this country it is slightly; in France it is considerably greater; Belgium, Italy and so on. But the aim of all the countries is to get back to the gold basis as soon as they can.

Mr. IRVINE: May I ask Mr. McKenzie further, if he will tell us exactly what he knows as to what relation should exist between the amount of notes

[Mr. H. B. McKenzie.]

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in circulation in any country, and the amount of gold which should be back of it. What is the proportion?

The CHAIRMAN: Mr. McKenzie has already stated he has not the figures. I think I can provide that for you, Mr. Irvine. Gentlemen, shall we meet on Monday? Most everybody says "yes." Well, we shall meet Monday morning at eleven o'clock.

Mr. Bevington and Mr. East will be here to be further questioned. If we do not have these two gentlemen before us, we will proceed to the non-contentious clauses of the Bill.

Mr. IRVINE: I understood Sir Edmund Walker would be here some time during the week.

The CHAIRMAN: We have not fixed the date. It was uncertain.

The Committee adjourned until 11 o'clock, Monday, the 16th April.

MONDAY, APRIL 16, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, we will take up the non-contentious clauses of the Bill this morning. I mean by non-contentious, those that have not been amended by the present Bill, and clauses that from experience or from observations in the press or public statements by individuals we believe not to be contentious. It has to be remembered that we have passed a resolution that if any clause has been passed we can revert to a further consideration of it upon motion, so that everybody is protected.

Mr. GOOD: Before we adjourn I wish to bring two points before the Committee. The first is that a change seems to have been made in the agenda. I think there ought to be some understanding as to what we are going to do at the next session of the Committee.

The CHAIRMAN: I understand that there is a caucus tomorrow, in which event we cannot hold a meeting. But I propose that we should meet this afternoon. On Wednesday, we will proceed with the consideration of the non-contentious clauses, and Mr. Bevington and Mr. East will be available for examination.

Mr. GOOD: The next point I wish to raise is this: I have just had an opportunity to look at the first printed copy of the proceedings of the Committee, and I find that some remarks of mine are reported in a way that is in many respects unintelligible. I know the reporter was labouring under difficulties, but we should have some way of editing these reports.

The CHAIRMAN: I quite agree with you, but it is very difficult because there are so many Committees working, and it is difficult to get reporters. My own opinion is that copies of the proceedings should be struck off in such a number that every member would have an opportunity to revise his remarks or questions as soon as possible. I do not know how Mr. Bevington's statement reads. I have not read it over yet—

An Hon. MEMBER: It is very good.

The CHAIRMAN: I propose taking up the matter of revision with the Chief Clerk of Committees.

The Committee adjourned until 4 p.m.

[Mr. H. B. McKenzie.]

AFTERNOON SITTING

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., the Chairman, Hon. A. K. Maclean, presiding.

The Committee proceeded to the consideration of the non-contentious clauses of the Bank Act.

Mr. W. C. Good: Mr. Chairman, before we proceed, I would like to refer to my remarks of this morning regarding the reporting of this Committee, and to put forward the suggestion that Members and witnesses should be allowed to revise their remarks. I think this could very easily be done by means of a galley proof, similar to the unrevised edition of Hansard, and it would do away with the inaccuracies in the reports.

The CHAIRMAN: I think that is a very good idea, Mr. Good. The reporting staff, I know, is a very greatly overworked at the present time, with committees sitting morning, afternoon and sometimes in the evening, and under such conditions they are doing, I think, very good work.

Mr. IRVINE: I would agree with you there, Mr. Chairman; I know that the Committee reporters are being overworked, and they are doing the very best possible under existing conditions. I do not think, Mr. Chairman, that this Committee should sit while the House is in Session, because today, for instance, there is a very important measure coming up in the House, and in order to attend this Committee meeting some of the Members have to absent themselves from the House.

The CHAIRMAN: I will have a conference at 6 o'clock with the Chief Clerk of Committees, and see what can be done in this regard.

The Committee proceeded to the further consideration of the non-contentious clauses.

The CHAIRMAN: We have made satisfactory progress today and I think we may now adjourn. There is a caucus in the morning so that we cannot meet tomorrow. My suggestion is that we should meet on Wednesday morning when Mr. Bevington and Mr. East will be available for examination by the members. I do not anticipate that their examination will take up very much time, so that we may have an opportunity to proceed further with the consideration of the non-contentions clauses in the Act. I would also suggest that Sir Frederick Williams-Taylor, one of the witnesses mentioned in the report of the Sub-committee, be asked to appear before the Committee on Thursday.

Mr. Good: Do you propose calling Sir Edmund Walker?

The CHAIRMAN: Yes.

Mr. Good: It is very important that he should be called because copies of a pamphlet written by him have been sent to the members of the Committee, and I would like to have an opportunity of asking him a few questions regarding it.

The CHAIRMAN: We might ask him to appear at the following meeting.

Sir HENRY DRAYTON: I think that with Sir Edmund Walker, you should have Sir John Aird.

Mr. Good: I would suggest that Sir Edmund Walker be called not only in connection with the revision of the Bank Act, but in connection with the general question which we have been discussing. You will remember that we discussed the propriety or the necessity of having some of the leading bankers familiar with the fundamentals of the question appear before this Committee,

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to give testimony in regard to the question on which Mr. Bevington and Mr. East are giving evidence.

The CHAIRMAN: I think it will be satisfactory if he is asked to appear on Friday. We can ask Sir Frederick Williams-Taylor and Sir Edmund Walker to be here on the same day.

Mr. GOOD: I have another suggestion to make to the Committee. I have been in correspondence with some economists connected with American universities, and I think we should have some information from the other side of the line on this question. Professor Sprague, professor of finance and banking at Harvard, is available this week, and he has written to say that he would be glad to appear before the Committee if we would like him to do so. I do not know whether he would be available next week or not. But I think we ought to have some authority from the other side, if not this professor, some other man.

Mr. STEVENS: What would be the particular object in bringing him here?

Mr. GOOD: To give us expert advice upon the subject matter of the programme, the question of credit.

Mr. STEVENS: While fully appreciating the desirability of obtaining all the expert information we can, it would, in my estimation, be ill advised to bring men here, widely informed as they are no doubt, and experts of high standing, simply to talk to us. If they could give us some information on some given point, or on some particular subject, we would like to hear them; but if we have a number of men coming to address us along general lines, we will not get very far.

Mr. GOOD: Mr. Stevens misunderstands the purpose I have in mind. Professor Sprague would not come here to speak to us, but to answer questions on the subject under consideration. However, I do not press his name.

The CHAIRMAN: I will ask the Sub-committee to consider his name, but would not some Canadian authority do as well?

Mr. GOOD: What is the agenda for Wednesday morning?

The CHAIRMAN: Mr. Bevington and Mr. East will be available for examination, and if we get through with them, we will proceed to the further consideration of the non-contentious clauses.

The Committee adjourned until Wednesday, April 18, at 11 a.m.

WEDNESDAY, April 18, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, please come to order.

Hon. Mr. FIELDING: I have received a telegram from Sir Edmund Walker, which he apparently desires me to put on record, and with the permission of the Committee I will read it. He says (Reads)

"TORONTO, ONT., April 17, 1923.

"Hon W. S. FIELDING,

"Minister of Finance,

"Ottawa, Ont.

"In the Toronto Star Mr. Spencer of Battle River is reported to have quoted me as having expressed opinion that double liability not worth paper written on. Please place on record that I have never expressed any such opinion and that on contrary I consider double liability affords real safeguard.

"B. E. Walker."

Mr. SPENCER: To back up my statement I only wish to refer to the statement that Mr. Good made when he read Sir Edmund Walker's own pamphlet.

The CHAIRMAN: When it was read it did not support the statement that was made.

Mr. STEVENS: Why not put it into the record?

Hon. Mr. FIELDING: Sir Edmund Walker will be here later, and he may be cross-examined on the question by any member of the Committee who desires.

Mr. HUGHES: Following the statement by Sir Edmund Walker in his telegram that double liability is a very important safeguard to the depositor and other creditors of the bank, if there is a weakness at all in the bank system, it comes from the fact that directors do not always direct, and I think in the event of their failure to do their duty, there should be some greater penalty attached to them than is attached to the ordinary shareholder.

The CHAIRMAN: Have you any motion to propose?

Mr. HUGHES: I am just leading up to that. The greatest responsibility that could be placed upon them, in my judgment, would be to increase the liability in case of neglect to perform their duty. My opinion is that if the directors and the general manager, president and other executive officers of the bank did their duty, there would be no failures, and I give notice of motion that the directors and such officers should have a vital liability in the case of such failure.

Hon. Mr. FIELDING: I wonder where you will get your directors.

Mr. HUGHES: The amendment is that Section 125 of the Act be amended by adding at the end of Sub-section 1, the following: "Provided, however, that any shareholder who is a director, general manager, manager or other executive officer of the bank shall be liable to an amount equal to three times the par value of the shares held by him, in addition to any amount not paid up on such shares." That is the idea I wish to submit.

Mr. HANSON: I desire to give notice of several amendments.

The CHAIRMAN: These will be printed.

Mr. HANSON: The most important one is with respect to hidden reserves. I do not intend to argue the point at all; the others are with respect to Section 113, Sub-section 5, the definition of current loans. Some substantial changes are made with respect to what are current loans and my notice of motion has reference to that.

Mr. W. F. MACLEAN: Do you cover frozen assets?

Mr. HANSON: I would thaw them out.

Hon. Mr. FIELDING: I might say that in consequence of representations that have been made, I am contemplating offering on the part of the Government several amendments, which will be produced at a later stage. I do not want to regard the present bill as the final word of the department, but several suggestions which have been made to me could probably commend themselves to the department, and at an early stage I will suggest amendments without finality, because down to the last stage I want to be open to any suggestions that seem reasonable.

The CHAIRMAN: The first thing on the order paper this morning is the consideration of the resolution of Mr. Irvine. It was the understanding that Mr. Bevington would appear before the Committee to make any explanatory statements of his previous remarks if he so desired, and also to afford any members of the Committee an opportunity of asking him some questions.

Mr. GOOD: Before Mr. Bevington proceeds, I would like to draw attention to the agenda for tomorrow.

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The CHAIRMAN: I thought that at 10 minutes to one o'clock we would take that up for to-morrow and the next day, Mr. Good.

Mr. GEORGE BEVINGTON, examination continued.

The WITNESS: Mr. Chairman and gentlemen, at our last sitting just before we closed, a discussion arose out of the gold base or different explanations of what was meant by gold base or gold standard or gold—well, whatever we mean by these terms anyway—I am afraid I am mixed on it myself, as to just what we mean, just what the gold standard is, and I would like to take a little of your time to clear that up from my point of view. To do that I want to use the chart. To my mind, the gold base is somewhat mythical. At any rate, it is a percentage base only at best. If we will take here on chart (Exhibit No. 5, page 90) the base of gold, we will see that that has been the base on which this structure has been expanded. Each and every one of these expansions have been on another base or sub-base, supposedly based on gold. Now, in the first place, this is not a base (indicating on chart); it is a product of labour, applied to natural resources, which is the real base of all things. This then is a sub-base itself. It is a product of the real base and it is made a base for circulating medium, by taking one of the assets of the nation on which to start. Now, from that condition we have developed this (indicating on chart) and made that as the base on which to develop (indicating on chart), and it is a base on which to develop this (indicating on chart), and we have come back and put that whole credit again underneath these sub-bases in order to make it function I want to explain it this way. We take our amount of gold here (indicating on chart) which is less than half of the note circulation, and we expand on that a note circulation or a substitution for money, considering gold to be the money of the nation. We expand that then into this (indicating on chart) so that we have increased our money base in doing that, and then we expand that again into this figure (indicating on chart).

By Mr. Stevens:

Q. Would you explain what you mean by "this figure"?—A. We expand gold of \$193,000,000—I want to say this, that this figure is not correct, because we added \$62,000,000 to that, making that \$193,000,000 since September last year. This volume of \$403,000,000 of note issue was there, but we added that \$62,000,000 to it, and using that as the example, we can use \$193,000,000 as being the base on which we have expanded by credit substitutes or paper money, \$403,000,000. Now we have two bases in that for a further expansion. We have Dominion notes and bank notes in this \$403,000,000. The bank note is based upon the asset of the bank only, and is redeemable in that asset only; consequently it has no base in money at all. It has an asset base, nothing else, the bank note issue. Then out of that bank note issue, we privilege banks to commence loaning to the public their notes on that base, bank premises, if you like, property; we allow them to commence loaning that out to the public and through the process of exchange it comes back on deposit and is reloaned out again, comes back on deposit again and is reloaned out until we build deposits into \$1,708,000,000 and build loans into \$1,709,000,000.

By the Chairman:

Q. Let me ask you a question. When the bank's notes come back to the issuing bank for redemption, does it not mean that the bank must make a disbursement? In other words, notes are not redeemed except for payment. Is not that correct?—A. If they did they would not pyramid.

[Mr. G. Bevington.]

Q. They would not?—A. No.

Q. But as a matter of fact, do they not do that?—A. No.

Q. Let me put this question to you: supposing a million dollars of the notes of the Bank of Montreal are presented for redemption at Ottawa here by the Royal Bank of Canada, which bank has received those notes for consideration, do you mean to say the Royal Bank would just turn those into the Bank of Montreal as if it were idle paper?—A. When they came back?

Q. Yes.—A. No, I do not mean that at all. I mean they do not pay them. They hire deferred payment by paying the deposit rate.

By Mr. Hanson:

Q. How does the bank pay the other the balance?—A. I am not talking about one bank.

By the Chairman:

Q. How do banks redeem their notes?—A. If they have to redeem them, they redeem them by giving Dominion notes instead.

Q. Do you suggest they do not redeem them?—A. No, I do not think they ever do redeem them.

Q. They do not?—A. No. In fact, they are promises to pay, and when they come back to the bank as payment of the loans which brought them into circulation they are then idle paper in the bank.

Q. Put it this way: if I have a one hundred dollar note of the Bank of Montreal, which I hand into the Royal Bank, for which I receive one hundred dollars in gold, and that note is in return presented to the Bank of Montreal for redemption, does not the Royal Bank receive payment from the Bank of Montreal?—A. Yes, if that is done.

Q. Well it is done every day, my dear man. That is not open to question.—A. I think I will have to disagree with even our Chairman on that point. There is a certain amount of it done every day, only.

By Mr. Stevens:

Q. What does Mr. Bevington mean by a certain amount of it done every day. It is a very ambiguous answer.

MR. SPENCER: I would suggest you would allow the witness to answer one question at a time.

MR. STEVENS: He has finished and I am trying to ask him another before he proceeds. He says it is done partly every day. He is taking that stand. That does not say that the banks do not redeem.

THE WITNESS: No, I am not taking that stand.

MR. SPENCER: Let him make that point clear. Give him a chance.

WITNESS: It is possible for the banks to do it in part and only in part. The \$1,708,000,000 cannot be redeemed with two hundred and ninety millions of Dominion notes.

MR. HANSON: Not all in one day.

WITNESS: Consequently this amount of credit that I have said has been built off of this base circulating and functioning as money, has no real gold base; it is credit based; it is a substitute base again built off the gold base.

By Mr. Stevens:

Q. Do you contend that the gold base is ineffective, useless and should be discarded because we are not in a position to redeem the full value of all the

[Mr. G. Bevington.]

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bank notes and all Dominion notes every day or on demand at any moment?
—A. I have never said or made any such statement.

Q. Will you answer me this question? Where do you draw the line? Where is the margin of safety?—A. The margin of safety as I stated in my printed statement is an asset taken as security for a loan with a margin of safety left there in the asset; that is the margin of safety, and I don't think there can be any other margin of safety fixed.

Q. That is not the point we are debating, and it is not the point we have been debating on two or three occasions. You are attacking, and I am not disputing perfectly your right to your opinion, but still I would like to try to get to some understanding of the points, you are attacking the gold basis so called?—A. No, I am not; I am not undertaking to attack anything, destroy it, or anything of the kind. I said in starting out that the gold base was a percentage base; I still maintain that, that it is only a percentage base, to whatever extent gold composes one of the assets of the nation, it is a base for circulating medium in the Dominion note, and it is only to that extent, because all of these Dominion notes are the promise to pay of the Dominion of Canada and are backed up by everything that exists in the Dominion of Canada just the same as a bond is, and to whatever extent gold composes one of those assets those notes are backed by gold and only to that extent.

By the Chairman:

Q. You made the same statement the other day, and it appears to me that you put currency and bonds on the same basis?—A. Dominion notes and bonds, on exactly the same basis.

Q. But a bond is a security maturing at a future date?—A. Yes.

Q. Is not that correct, maturing at a future date? Nobody can demand payment before maturity. But a Dominion note is payable on presentation, is it not?—A. Yes; and that is the only reason why a gold base was ever thought necessary, in order that you might have an amount sufficient to redeem those pledges of the government that were redeemable on sight.

Q. The virtue of a paper currency is the fact that it is immediately redeemable, is it not?—A. Yes.

Q. Why do you talk of bonds and currency as being practically the same thing, putting them into the same category as national credits?—A. Because of this fact, that the bond under the Finance Act is permitted to be used by Parliament or by the Treasury to buy gold with, and it has been used since last September I assume to buy \$38,000,000 worth of that to increase this base. If the bond is capable of buying gold it is even better than gold; if the national credit represented in the bond is capable of buying gold it is better than gold.

By Mr. Stevens:

Q. If you have a one hundred dollar bond and one hundred dollars in gold, do you mean to say that you can go out in the world market with that bond and buy goods more easily and more efficiently and with more facility than you can with gold?—A. I have not made any such statement.

Q. The point you are making is that the bond is better than the gold?—A. It is.

Q. For currency purposes?—A. It is considered so in the markets of the world, or you could not buy gold with it.

Q. Can you go into the markets of the world with a bond for \$100 in one hand, and \$100 worth of gold in the other and with equal facility buy goods?
—A. I have not tried it, so I could not speak from experience.

Mr. MITCHELL: Without regard to the amount of bonds issued?

[Mr. G. Bevington.]

Mr. STEVENS: Yes, or with regard, if you like; surely you will admit that you could not with equal facility buy goods?—A. Well, I will admit that, but that does not affect the base upon which either of the instruments rest.

By Mr. Ladner:

Q. Do you believe we should have a gold base?—A. I believe what we have now is just as good a gold base as we need, but if other people in other nations wish us to maintain a base for the purpose of satisfying their demands in trade, I have no objection to retaining it.

Q. Do you think our present gold base should be eliminated, increased partly or increased up to the equality of the note issue?—A. For our national currency I do not think it makes any difference whether we do anything with it at all or not.

Q. May I ask you what is the point of your discussion?—A. If we require in order to carry on our business with other nations, a gold base to satisfy the demands of other nations, then it is in our interest to keep that amount of gold base.

Q. Is it not a fact we must do that?—A. I do not know that it is a fact that we must continue to do it for any great length of time.

By Mr. Mitchell:

Q. You have to continue it so long as other nations demand it?—A. That is all.

By Mr. Hanson:

Q. Will you not admit, in view of the fact that other nations maintain a gold basis, that it is absolutely necessary that this country in view of its international relations and international trade shall have a gold base and a substantial one?—A. If a great many of the other trading nations maintain a gold base as the only thing, we will say gold, not a gold base, because the gold base does not exist any more in other nations, but gold is considered to be a commodity acceptable amongst nations for trade balances.

Q. The gold base exists in the United States?—A. No, it does not, not only to that extent, no more than it does here.

By Mr. Irvine:

Q. Do you think if the British merchants had a large stock of dry-goods to sell and the British people required a very great deal of wheat, and Canada had the wheat, do you think they would be very much worried about whether we had gold or not?—A. It would not be any concern of theirs, as long as we had the wheat and they wanted the wheat, that would be just as acceptable as the gold.

By the Chairman:

Q. That is true; gold is used merely in the settlement of international balances, but to preserve the integrity of your currency for domestic purposes only it is necessary that every holder of a note feels that that can be redeemed if he wants redemption?—A. That is just as long as the people with whom you wish to trade demand that you maintain that base. It is not necessary from our standpoint internally.

Q. It is necessary for the domestic holders of our currency to know that their holdings of currency will be redeemed if they require redemption?—A. In what?

Q. Any thing they want?—A. Yes, in anything that they want.

Q. In gold, if they want it?—A. No, I do not think so.

[Mr. G. Bevington.]

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By Mr. Irvine:

Q. According to the Chairman's question it is necessary that our people in Canada should feel secure that they could demand gold; will you explain how they have been getting along for the last few years since the gold basis was set aside by Parliament?—A. It has not made the least bit of difference to them. They have accepted the Dominion note as the promise to pay; a note was legal tender, so that it must be accepted as payment of debt, it must be accepted in payment for any goods that are on sale anywhere in the Dominion; therefore it performs all the functions of money and nobody has any reason to object to it.

By Mr. Mitchell:

Q. How would you fix your limit there?—A. The limit of the amount in circulation?

Q. Yes?—A. I don't think we could fix that absolutely, but we could come very nearly fixing that if we adopted some method of national accounting so that we would know what our position was, and they regulated the volume of money in circulation according to the demands of trade and commerce, and fixed it by world index prices—

Q. Would not it depend greatly upon how the foreign merchants and foreign countries looked upon our currency and its value?—A. If our money fell we will say to a discount, our paper money fell to a discount in other countries, would that be a very great disadvantage to us?

By the Chairman:

Q. We had experience of that some years ago when it was 15 per cent discount?—A. What was the result of that? The result of that falling to a discount meant that we became self supporting to a greater degree than we were before; if we had not been buying more than we were selling we would have had no discount.

By Hon. Mr. Fielding:

Q. And if the discount had been heavier would that have been for the gain of Canada?—A. Yes, because we would have used more of our own home grown and home made materials.

Q. Then when we were sorry about the discount of our notes in the United States we were wrong?—A. Yes, absolutely wrong in my mind.

By Mr. Ryckman:

Q. It would not matter very much whether our currency was at a discount or not, you say; would you say it would not matter very much no matter how great that discount was?—A. I think it is admitted by all that we cannot pay anything outside of Canada with a Dominion note anyway. We can only pay with goods. We can consider gold as goods or any other labour product goods, and we will pay for whatever we get with those things. If we wish to pay or settle with the promise to pay at some other time, years later, may be, naturally we will have to pay something to induce those people to accept our promises to pay. That causes our exchange rate.

By the Chairman:

Q. The mere fact that we cannot settle international balances with gold in itself tends to a depreciation of our money?—A. Yes; the simple fact that we have not a sufficient amount of that commodity which is acceptable to other people tends to depreciate our currency.

[Mr. G. Bevington.]

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By Mr. German:

Q. What limit would you set to the amount of money you were going to issue?—A. The limit that we have set through this last few years has been the willingness of the Dominion Government to issue bonds and take them back to the Treasury Board again in exchange for Dominion notes that the purchaser of the bonds might put the Dominion notes into circulation; that has been the only limit in these last few years.

Mr. MITCHELL: So that it would always depend on the will of the Government.

By Mr. German:

Q. I was not asking you to explain what had been done; I was asking you what limit you would put on your note issue, or promises to pay?—A. I think that would be a proper question to ask me if I was the Government.

By Mr. Stevens:

Q. You are proposing to this committee a scheme or a system different from the present financial system; I asked you several times, and Mr. German has asked you just where you propose to limit your note or circulation issue?—A. I will try and answer it in detail if you give me an opportunity, but I would ask this, that before I get half through I do not want to be interrupted, because that gets no good out of the explanation.

Mr. W. F. MACLEAN: I would like to ask the witness a question—

The CHAIRMAN: Let the witness go on.

Mr. W. F. MACLEAN: I do not see why I should not be allowed to ask a question; why not give me a chance as you gave other members?

Hon. Mr. FIELDING: We have you all the time, and Mr. Bevington will be with us only for the present, and Mr. Bevington has asked that he be not interrupted.

Mr. W. F. MACLEAN: Very well, I shall bow to you, Mr. Minister. Well, go ahead.

WITNESS: I have suggested to this committee a plan whereby the Treasury Board's functions would be defined by Parliament, using that institution then as the place of issue of Dominion notes that would be put into circulation in exchange for certain classes of securities that this Parliament would also define. Now, having established that Board on that basis, call it a Federal Loan Department if you like—I don't care what you call it—you will establish other units throughout the country, a provincial unit—I want to be very clear on this, and it is a little bit difficult to explain so that you will follow the drift—that provincial unit would be organized as a separate institution with a paid-up capital; the provincial institution would advance money to local units that would also have a paid-up capital; the local unit when it advanced to the individual would take a security that in turn the local unit would take to the provincial unit, and add to that their own notes, using the individual security as a collateral to their own security to the provincial unit. Now, the provincial unit has a capital asset of its own, it brings this security from the local unit to the Federal Treasury Board, and puts those securities in as collateral to its own note. Now, you have a duplication of securities all the way back to the original borrower; if those securities then are acceptable to the Treasury Board that would be the limit to which you would loan or issue this money.

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By Mr. Hanson:

Q. Then you would have nothing except the volume?—A. Why should you have a limit in a country that is growing and increasing its ability to pay and to redeem its notes, why should you have a limit?

Q. That is just what they are doing in Germany, except that their ability to redeem is sinking, sinking, sinking?—A. Exactly.

Mr. STEVENS: Could I ask two or three questions?

Mr. W. F. MACLEAN: Could I ask my question?

The CHAIRMAN: Are you quite through?

The WITNESS: No. We have a country here that is capable of great development; we can supply room, farms, manufacturing industries, and everything else, for many times our population. At the present time our bank note circulation is confined to the paid-up capital of the banks, plus 15 per cent; if our production doubled, we will say, next year, and we are capable of doubling our production without any increased plant or people, if our production doubled next year and the volume of money did not double, what is going to happen to the price of goods? If we stick strictly to the Bank Act and do not use this other credit, this national credit we have been talking about, but stick strictly to that, what would happen to the price of goods if no more bank stock was sold in order to increase the bank note issue? The price of goods would be cut in two, simply because the volume of goods must always be measured by the volume of money, the volume of goods in the channels of trade must always be measured by the volume of money available for their exchange.

By the Chairman:

Q. You want just enough money or currency to facilitate the exchange of goods?—A. Yes; and I do not want any small group of people or large group, for that matter, to have control of that so that it cannot be made available for use by the demands of the business in the country through either increased production or increased population.

Mr. W. F. MACLEAN: May I now ask a question?

The CHAIRMAN: Yes.

By Mr. W. F. Maclean:

Q. I want to try and clear the ground. There is something in what the witness is saying, I am quite sure of that, I quite believe a great deal of it myself, but where the committee was being perhaps misled, or misjudging the case is this: the witness talks about a base; that is not the real explanation of the word base. You look at the great cantilever bridge at Quebec. It is a balancing, and you will see an illustration of it in the atlas issued by the Government. Look at that picture; there are two bases there, one on each side, and they are always in equilibrium. Now, that is how business is carried on in this country, and by the setting off of the one on one side with the other off on the other side, we have cantilevered, if I may use the word, our banking system on the two bases; they are in equipoise, and one balances the other, and there is the great system of cancellation going on as against this gold basis that he speaks of: Therefore I want to ask the witness now if that is not what he is driving at, that there is the great balancing of one against the other, and the gold basis, wherever it is, I don't say on which side of the cantilever it is, but it is there, and the great thing is not gold—as has been talked about here, the gold basis—it is the cancellation, it is a cantilevering of the liabilities of the country; and you can carry on the cantilever in that way if you do not extend it too far. The whole thing is based on a balancing, and I think that is what the witness

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is driving at; that is what a great many people are driving at; and that is how the finance world is carried on. It is not so much in the gold base or bond issue, it is in the cantilever. I do not think the witness even is saying that he is a soft money man or anything of the kind, but he is trying to bring out that there is a great cancellation, there is a great cantilevering of the liabilities of the country, and I think that substantially is what his proposal is.

The WITNESS: What I am trying to get to this committee is this fact, that this volume of bank deposits and loans here has no basis whatever in money, and the fact that those institutions have it in their power to either extend that or withdraw it from circulation and upset the balance of trade all the time. Whenever they are willing to freely loan prices go up and production proceeds; whenever they refuse to loan and draw that back, which they can do at will, they can reduce prices and practically break everybody in the country. I do not say that they exercise that power, but to whatever extent they do exercise it, it has that effect. They have absolute control over this, and any of these sub-bases that we have built up for our monetary system have nothing whatever to do with the control of that; that is simply bank created credits functioning as money.

By Mr. W. F. Maclean:

Q. And they cancel one another, a large amount of it?—A. Every repayment of a loan cancels a deposit.

By Mr. Mitchell:

Q. I want to make clear, under your system as I understand it this local unit and provincial unit and Treasury Board, the final judgment on the amount of the issue would rest with the Treasury Board?—A. No, the final judgment would rest with Parliament; they will fix the classes of securities.

Q. It would rest with the Treasury Board subject to the Act of Parliament which created it?—A. Yes.

Mr. GOOD: I just wish to make a comment on the discussion which has been going on for the last fifteen or twenty minutes. I think there is a serious confusion about what may be called the gold base, as a substance into which paper money may be converted, and about the question of a gold standard, or the existence of a convention, or an agreement or standard of value—whether a dollar, or the English standard a pound, or whatever we call it, is to be a certain weight of gold. I have been looking into this matter, and I wish to suggest particularly to two or three of these gentlemen here, that there is a serious confusion in their minds, in my judgment, as to these two different conceptions of Mr. Bevington. They are working somewhat at cross purposes.

Mr. STEVENS: I am deeply grateful to Mr. Good. May I ask a question?

The CHAIRMAN: Yes.

By Mr. Stevens:

Q. Having reference to your last statement, and in order not to run into the bad graces of Mr. Good I will try and repeat my question, and ask you to confirm it. I understand your objection to the present system to be that the banks have certain powers which you admit they do not exercise, perhaps, but they have it in their power to so contract and to so expand credit or circulation as to seriously prejudice the interests of the people?—A. Yes, sir.

Q. I am correct in that?—A. Yes.

Q. I am not going to be charged with being incorrect in a moment or two; therefore you suggest the substitution of another system, am I correct in that?—A. No, not substitution; the building of another right alongside.

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APPENDIX No. 2

Q. Superimposing another system, how will that do?—A. No.

Q. You want to hitch a mule up to this ox, will that do?—A. No, I don't want any hitching together at all.

Q. You want to run another system parallel with it?—A. That is it.

Q. Very well. In your system you propose the issue of currency based upon credit, the individual plus the local's endorsement, plus the provincial endorsement—am I correct in that?—A. Yes—just a moment, what do you mean by issue?

Q. I mean issue?—A. What is that?

Q. Let me put it in another way; you propose a currency in Canada running parallel with the present currency of notes, call them federal notes, based upon purely the credit which is owned here and there through the country?—A. No.

By the Chairman:

Q. Based on commodities?—A. No, going into circulation against those things as security only.

By Mr. Stevens:

Q. Very well, we will put it that way, and you are fixing with the Treasury Board the power to limit that circulation?—A. Yes.

Q. Very good. Would not that Treasury Board then have the power to contract or expand?—A. No, not if Parliament has fixed the security that it must take in exchange for notes.

Q. The type of securities?—A. Yes, not the quantity but the type.

Q. Let us try and get at it from that angle; who knows what limit there is to the type of security? Does anybody know? Can you give an idea, an estimate of what that is?—A. Yes.

Q. Where is your limit of circulation going to be reached?—A. You have a personal interest, a personal investment in the local units that make the advances, you have a personal interest there, and that amount is a guarantee in itself because it is put up as a collateral security in getting a loan. You have that guarantee there. You have organized a society—call it a society—some kind of a co-operative corporation or anything of that kind, and a number of men we will say fifty men take \$200 worth of shares each, in it, as an illustration. You have got a capital investment there, have you not?

Mr. STEVENS: Yes.

The WITNESS: Now then the loans you are going to make out of that institution are on real property and those are the people that are going to make the loans.

Mr. STEVENS: On real property only?

The WITNESS: It does not make any difference whether it is wheat, it is real property.

Mr. STEVENS: That is on commodities.

The WITNESS: Real value. We will suppose that they loan on that or any other thing, they take that security that they have representing that thing, plus their own security to the financial unit and get some money. Now the provincial unit has back of it all of the assets of its investment, and it comes to the Treasury Board. Now that security is more secure than the securities that are now being taken by the Treasury Board or that have been taken by the Treasury Board.

By Mr. Stevens:

Q. For the moment I am going to ignore the rather extraordinary proposition that this much condemned currency is going to form the basis of the

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capital of both the province and the Dominion.—A. Pardon me, I do not admit that I have condemned any currency in Canada.

Q. The much criticized currency; we will brush that aside for the moment. The extent of your issue will be based upon the needs of the people in the opinion of the locals? That is right, is it not. Very good, then you will naturally expect that this currency you will issue will be very very much wider in its extent of issue than the present currency? You will admit that?—A. Well, I will admit that there is a need for more currency at the present time but I am satisfied that in a very short time it would be very much less than it is at the present time.

Q. I will agree with you on that point that there is a need of more currency, but I am trying to get at this new currency of yours. You will admit that there will be a very much wider issue in response to your system than there is at present?—A. I would hope so.

Q. Then if we have superimposed upon the present issue of currency another issue not only equal to it but very much wider than it, will a dollar of that currency, nominal value, buy a bushel of wheat where a dollar to-day will buy it?—A. Yes, yes.

Q. You assert that?—A. Yes, absolutely.

Q. As an economic expert you assert that?—A. Yes, without hesitation.

The CHAIRMAN: Ask him about redemption or how he provides that.

Mr. STEVENS: Let me finish my one point, and that is this: that is exactly the system followed in Germany. My friend Mr. Irvine, because I mentioned Germany the other day, was apparently a little bit peeved at me. I mentioned Germany as an economic factor; I am not talking about the Germany we fought at all; and it has one of the cleverest aggregations of financial—what shall I say—experts if you like, that there is in the world. They did that very thing. They based their currency issue after the conclusion of the war upon the internal assets of the State.

Mr. Good: Are you sure of that, Mr. Stevens?

Mr. STEVENS: Well, practically, yes. There may be some room for quibbling about it. My friend is very fond of lecturing and now let him take a little dose of his own medicine and contemplate it for a moment. Germany did make its issue practically as I have stated. What was the effect of that? Absolutely to wipe out the internal debt of Germany. Was there any injustice done there? Let me put it in another way. Assuming that in Canada we made an issue of Dominion Government notes on this new basis, superimposed on the present basis, so that the currency of Canada fell in value, in its purchasing value, as Germany's has done, and our two and a half billion dollars of debt became an infinitesimal amount compared with the note issue, as Germany's did, a parallel case. Would not that be doing an injustice to the holders of those time payments?

The WITNESS: If we did what Germany did?

By Mr. Stevens:

Q. Why certainly, and we could not avoid doing what Germany did.—A. Oh, yes we could.

Q. For this reason: when you issue a currency of that character, an elastic currency, the minute you make that issue your commodity values rise, increase; as the commodity value increases you are ipso facto called upon to make a new and further issue to keep pace with it. Then your commodity values go up again and you must make another issue, and to-day or for the last three years that is what Germany did, and what Austria did, and what the others did.

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APPENDIX No. 2

What is Germany doing to-day? She has made a new issue based on a £33,000,000 gold basis, a new issue which is passing currency in certain business circles, and the popular issue—if you like to call it so, is practically useless. Now I want Mr. Bevington to get to cases on this. I want to say, with all courtesy if I can, it will never do for me—I speak for myself only—to support a scheme which one can unite with this observation: “Well, it is not my business to fix the limitation of the issue, that is going to be the business of the Board.” If we are going to go blindly into a system and accept it, adopt it, pass laws to make it possible, and then meet the Treasury Board a year hence with a problem of which we have an illustration already in other countries, showing the effect, and ignore that effect to-day, I think we would be doing something that would be of a serious nature against the interests of this country. And unless Mr. Bevington and those who are supporting his view can give to this Committee some idea of where their limitation comes, and the effect of fixing such a limitation, I don’t think the proposition should be considered. Now I want in justice to Mr. Bevington to say this, and then I am through with this discussion; he made the statement a moment ago, that the circulation of the banks is limited by the capital of the banks plus fifteen per cent. Now I want to say this to the banks, because I think Mr. Bevington made a very good point, that it is an open question whether or not to-day our currency based upon the bank capital is sufficient. I grant that, and I think that is a question this Committee could discuss, but not with the view of substituting altogether a new currency.—A. I should like the privilege of replying to that.

Mr. IRVINE: We are not going to Germanize this country, that is the point, Mr. Chairman.

The CHAIRMAN: If you will both take your seats; I quite agree with almost everything that Mr. Stevens has said, but we cannot argue these questions in Committee; we will take a day or so later, when we come to make our report on this, when we can discuss the merits of Mr. Bevington’s scheme.

Mr. STEVENS: Accept my apologies, Mr. Chairman.

By Mr. Hanson:

Q. I do not wish to argue the question. Assuming that this scheme were adopted, and assuming that there is this issue of paper money—I call it “fiat” money myself—how are you going to redeem that money in the hands of an outsider?

The CHAIRMAN: That is the important question.

Mr. SPENCER: Mr. Chairman, I rise to a point of order. Mr. Bevington asks the privilege of replying to Mr. Stevens, and he has been interrupted.

The CHAIRMAN: He can answer the question and make his reply at the same time.

Mr. BEVINGTON: This resolves itself back into the conditions as they are to-day. What could we go out and buy 62 million dollars’ worth of gold with, since last September. If we admit that we must have something functioning as a medium of exchange, we also admit that there is not sufficient gold for the peoples of the world to do that. Then we must have a substitute. Now then I have suggested a plan of getting this substitute to the people in the safest possible way I can imagine. I have not suggested that the Treasury Board nor the Government should not undertake to protect the value of that money. They can protect the value of that money in other countries by the same method that they are protecting it now, going out and buying gold.

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By Mr. Stevens:

Q. Put it on a gold basis?—A. They can go out and buy gold. I have not offered any suggestion of a change in the issue of Dominion notes, simply a change in the method of getting them to the public, taking the control of credit out of the hands of private individuals, making the asset that is available as a security the controlling factor in the use of credit instruments.

Mr. IRVINE: Mr. Chairman, according to Mr. Stevens' interpretation of the German plan, their issue of money is conditioned by the rise in prices, because he says just as sure as the prices go up they have to issue more money, and if that puts the prices up again, they have to do it again. He admits there that Germany has not issued a currency on the national assets, and the difference between Mr. Bevington's system and theirs is just there; Mr. Bevington is advocating, if I understand him aright, issuing currency on the basis of our national assets.

Mr. STEVENS: One is cause and the other effect; that is the only difference.

By the Chairman:

Q. Mr. Bevington, have you in mind following the schemes of Edison and Ford?—A. That might be a development of it, Mr. Maclean.

By Mr. Woodsworth:

Q. I notice in the last annual statement by the Bank of Commerce, this statement by the General Manager:—

“Probably few bankers realize that a bank such as this must stand ready to pay in and out, to redeem in gold and legal tenders from three quarters of a million to a million and a half of its notes, from any one of its financial centres, quite in the dark as to where the call will come from next day.”

I note it is the general impression that the banks stand ready to redeem in gold, but the General Manager says: “Gold or legal tender.” In what sense is this true? How far is there a gold basis for the banks? Is there any definite proportion here? Mr. Bevington has partly covered this in a general way, but here is a statement that goes out to the public.—A. The proportion would seem to me to be this: the banks must redeem their notes in Dominion notes. Provision has been made for the Treasury Board taking securities in to enable them to do it. Then the Dominion notes again are redeemable in gold out of that held by the Treasury.

Mr. MACLEAN: (York): It is the cantilever, as a matter of fact.

Mr. BEVINGTON: Now the central Government undertakes to authorize the Treasury Board to provide itself with what is considered to be a sufficient volume of gold at all times, to meet that demand for redemption in gold. I don't see anything wrong with that myself whatever.

The CHAIRMAN: No one demands gold, Mr. Woodsworth, until they lose their faith in the currency circulating in the country. Then you have a real demand for gold.

Mr. IRVINE: Confidence is more than gold.

Mr. MACLEAN: (York): And the cantilever.

Mr. IRVINE: Now, Mr. Chairman, Mr. Stevens has spoken of the difference between Mr. Bevington's and the German plan as being cause and effect. I want to point out that he misunderstood him there.

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APPENDIX No. 2

By Mr. Irvine:

Q. Supposing you have issued currency to the limit of our natural resources, then you would stop, you could not go beyond that could you?—A. No.

Q. According to the German plan, there is no limit as long as prices rise. Does Mr. Stevens see now the difference between the one proposition and the other?

Mr. STEVENS: That is a sort of question hurled over at me. I will answer my friend in this way: the cause is what I stated. The system that you adopt—and certainly the Germans wished to stop before it went as far as it did, but they found they could not stop, and they cannot stop today. That has been the trouble with the German issue, they were forced to go on because of the tremendous demand for currency and because of the inflation of prices. It is the effect of the system they adopted. Not intentional. They did not adopt it deliberately with the intention of proceeding as it has.

By Mr. Mitchell:

Q. Mr. Bevington, you have just said in answer to Mr. Irvine, that you would limit the issue by the national assets?—A. That would be the ultimate limit, but I do not say they would go to that.

Q. Who would estimate the national assets?

Mr. STEVENS: The locals.

Mr. BEVINGTON: You are already getting your assets estimated in each and every locality. You would only loan on a margin of safety, any loan.

By Mr. Mitchell:

Q. Then supposing your loan came to the Central Treasury Board, which is limited by Parliament as you suggested and there was a disagreement; which would prevail?—A. Why it could not come to Parliament.

Q. I do not say before Parliament, but you said the Treasury Board would be limited by the Act of Parliament in the amount they could loan. Supposing there was a disagreement between your local and your Treasury Board as they were authorized in the Act of Parliament, which would prevail?—A. I don't think that would happen, because the local has a certain amount of investment that it makes its original loan on. As long as it can keep that clear by re-discounting somewhere, it can continue to loan; when it cannot keep that clear it must cease to loan. The provincial institution or unit is in exactly the same position. It has a certain amount of invested capital. So long as it can re-discount and keep that clear, it can go on re-lending. When it cannot, it will have to stop. Now the Treasury Board would limit both of them, and the Parliament limiting the Treasury Board, by defining the class of securities and the margin of safety to be maintained in making the extension of credit. Consequently it is limited all through.

Q. You at one time used the word "security"; in another case you used the words "national assets." Now what is your distinction there? Or, "national resources." I beg your pardon; and "securities." What is your distinction?—A. "National resources"—I use that word in connection with the Dominion bonds or note issue, because that is what it is based on. When I use "asset" that is the individual right to the possession and use of a certain amount of what is the total national assets. If you own a farm, or city property, or the like of that, you have private possession of a part of the total national assets. Then that is your individual asset to pledge in exchange for the use of the instrument, the Dominion note, issued upon the whole national assets.

[Mr. G. Bevington.]

By Mr. German:

Q. Is there any place in the world where this scheme of yours is in existence and carried out?—A. There is very similar to that.

Q. Not similar, but your scheme?—A. I don't think you could find anyone that has adopted this. I don't think any other nation have it worked out. I don't think any other nation could adopt identically the same scheme.

By Mr. Ryckman:

Q. Where are similar schemes in force?—A. In the United States, passed by the last Act of Congress.

By Mr. Hanson:

Q. Did not the United States try this scheme 100 years ago?—A. No.

The CHAIRMAN: I do not think there is such a scheme in the United States. Behind every scheme for credit in the United States they have the Federal Reserve notes, which are redeemable in gold. Now that is my experience, in every one of the schemes that have been set up. That is the distinction.

By Mr. Good:

Q. I was going to ask if it was not accidental rather than essential that that is the situation in the United States.

By Mr. Hanson:

Q. Mr. Bevington, you have said this has not been tried before in the United States. I would like to call your attention to an editorial in the *Montreal Gazette* of yesterday, the 16th of April, in which they cite two cases where this scheme in effect has been tried out.—A. I would like to know the cases.

Q. "In 1820 the State Bank of Tennessee was incorporated, the bank being authorized by its charter to issue bills to bearer upon the security of the borrower, guaranteed by the State, and no specie was required to be held."—A. That is a different basis.

Q. Then it is said: "The experiment was an early application of Mr. Bevington's theory. It was vigorously but ineffectively condemned by General Jackson"—who wrote a memorial to the Legislature. "Nevertheless" in spite of his protests—"the bank was established; its bills fell below par and as compared with those of the Bank of the United States were at ten per cent discount; and after a precarious existence for twelve years closed its doors with considerable loss to the State. The State Bank of Illinois was incorporated in 1821 with a capital of \$500,000 based entirely upon the credit of the State, and given power to issue notes to that amount, these notes constituting its capital. The law required the bank to lend to the people \$100 on personal security, and in amounts not exceeding \$1,000 upon notes secured by mortgage on real estate. Everyone who could get an endorser borrowed his hundred dollars, and these loans with those made on real estate security, soon amounted to the whole capital of the bank. Not long after the bills of the bank fell to 75 cents on the dollar, then to 50 cents, and finally to 25 cents, when the bills ceased to circulate. This adventure into the realm of banking cost the State of Illinois \$400,000.—A. Mr. Chairman, I would just like to point out that neither of those are in any way similar to the proposition I have made. In the first place they were both State enterprises, carried on by the State laws; not by any Federal enactment. There was no adequate control of credit extension in those institutions. Therefore they are no more alike than our present system to the Russian.

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APPENDIX No. 2

By Mr. Stevens:

Q. How does my friend know that there was no control?—A. I know there was not adequate control. I have read that history, I know details of other various plans.

By Mr. Ladner:

Q. Mr. Bevington, if I understand the real point you are making with respect to your scheme, it is that you would extend the currency or note issue of the country through the instruments of credit which you have spoken of, emanating from the local districts. Is that right?—A. Would I extend what?

Q. Extend the currency of the country, increase it, you would create more credit instruments?—A. I want to deal for a moment with deflation, and I want to answer your question then.

Q. No, while I am on that point; you have explained how these securities would be passed by the Treasury Board and then the currency would be issued, is that not right?—A. Yes.

Q. Now is it not a fact in actual experience in trade and commerce that only a certain amount of currency is required in proportion to the volume of trade and business done, so that really the determining factor is not the amount of currency you put on the market; if you make it too much it will depreciate; but the determining factor is the amount of trade and business you do and the currency is only the medium by which you may handle it?—A. That is it.

Q. Then why do you in your scheme propose to arbitrarily fix the currency or to make it depend upon some other question, such for example as the value of some real estate or something of that kind, is that not a wrong relationship?—A. No.

Q. Is not the proper relationship, the relationship between the currency and the volume of trade, business and industry of the country?—A. Yes.

Q. Well then does not that regulate itself automatically as it has for years in all countries?—A. No sir, that is just my point exactly, that it does not. The control of that volume, this volume, here, in the diagram, that is doing the nation's business in Canada, is entirely at the control of the bankers of this country. They can withdraw every dollar of that from circulation without affecting the currency in the least.

Q. In order to get down to a concrete point will you explain how it is under the control of the Banks?—A. Because it is entirely bank created credit and has no foundation in money whatever.

Q. Unless the Bank is using that in business, it has got to pay interest to the Government?—A. No No, it does not pay anything for any of this at all. It is entirely bank created and has no basis in money.

By Mr. Mitchell:

Q. When you refer to "this" what do you mean?—A. These millions of deposits.

By Mr. Ladner:

Q. I am speaking of the currency Mr. Bevington?—A. Well, here is where the control comes in. Let us get down to the real point. Is not the point that through the Treasury Board you increase the currency of the country with relationship to the volume of business, is not that your point?—A. We did do that.

Q. Is not that your point?—A. That we would increase it?

Q. Yes.—A. I don't think it is. I don't think it is my point at all. It may be your point but not mine.

[Mr. G. Bevington.]

Q. Then I will endeavour to get it so that we will understand each other. Didn't you state that through the locals you would issue credit giving as the base of your security this real property or something of that kind?—A. Yes.

Q. You would go step by step through the Province until you landed in the Treasury Board with that identical security and against that the Treasury Board would issue currency. That is right, isn't it?—A. Yes.

Q. Now then what would you use that currency for excepting in the business and commerce of the country?—A. That is what you would use it for.

Q. Well then is it not the business and commerce of the country which you have to consider in relationship to currency rather than the securities which you suggest?—A. That is the reason why you want a base upon which to issue money in the first place. (Hear, hear)

You have a base which is the national credit on which you are going to issue an instrument to meet the national need. Now it is only a question of how you are going to get that money to the people in order to satisfy that need.

Mr. GOOD: Whether through banks or these other institutions.

By the Chairman:

Q. Mr. Bevington, you used the word "national needs." I want to know if you have thought it over carefully, and still think that that is an appropriate expression?—A. How would you better express the needs of all the people of a nation?

Q. That is what you mean then?—A. Yes.

Q. There is no such thing as national needs, and therefore you mean the needs of the people of the country?—A. Yes.

Mr. MITCHELL: Is that your national assets Mr. Chairman, that you are just referring to?

The CHAIRMAN: No, national needs.

Mr. MITCHELL: That is the basis of currency then.

The CHAIRMAN: Determining the volume of currency. I wanted to make it clear that what he had in mind when he speaks of national needs, is the combined needs of the nationals of any country or of this country.

By Mr. Hughes:

Q. Mr. Bevington I think stated, and I wish him to correct me if I am wrong, that it would be possible for the people of this country to produce twice as much as they produced last year, but that could not be done without an increase of twice the bank note issue of the country. Did you make that point?—A. The circulating medium would have to be expanded.

Q. Increased to the same extent?—A. And this, here—(refers to diagram)—which has no foundation in money, can meet all of that expansion right now. We don't need to call another dollar into circulation.

Q. My impression of the statement was, and I want to be correct, that a corresponding increase would have to take place in the currency issue of the bank?—A. No, in the credit expansion.

Q. The credit expansion? What does that mean?—A. It means anything that goes into our monetary system. This is all functioning. These deposits here—(indicating diagram)—were first loans and came back as deposits; now it becomes a credit, because the depositor has not withdrawn it; he has left it there and it is a credit to his account. Consequently the bank commences to loan other people's credits that have no foundation in money.

[Mr. G. Bevington.]

APPENDIX No. 2

By the Chairman:

Q. On security of course?—A. Certainly. No question about that. And they may expand and expand. Just as long as a new loan is made, a new deposit must turn up somewhere; that can be expanded and expanded or contracted and contracted; it does not make any difference.

The CHAIRMAN: Does any member wish to ask Mr. Bevington further questions?

Mr. GOOD: I have about a dozen questions that I have been wanting to ask him, and I have not had much chance this morning.

The CHAIRMAN: All right, proceed.

Mr. GOOD: I do not know that I will get very far with them in the time remaining.

The CHAIRMAN: You have got a long while yet.

Mr. GOOD: I will not divert Mr. Bevington's attention from the point we are on. I wanted to ask a question as to the control over inflation and deflation by the banks, as to how far they are able to control this process, or how far they cannot control it, and also how far in that connection this system he proposes would function better, in the system of credit or inflation and deflation. I think all the members of this Committee are seized with the importance of the question of price changes, and there is no question in the world in our minds that the inflation of bank credits increases prices, deflation increases prices.

The CHAIRMAN: You want to ask him that question now?

By Mr. Good:

Q. I will put it more clearly. We understand the importance of that, and I think all of us would be interested to find out how far the system which he proposes will give us a more effective control of inflation and deflation in the interest of the people of Canada than the system now in existence?—A. It would simply mean this, that if the needs of the people required a greater volume of money in circulation they would go on demanding it as long as they had the assets. Just as soon as they did not have the assets, they could not get any, but just as soon as they did not need any money, they would take it back and put it into the institution. It would be a self-regulating proposition. No man would pay 5 per cent or 3 per cent for the use of money that he did not any longer need. If a man borrowed, say \$5,000 to carry on business and he had the asset, why should he not have it? After he had gone along with his season's work and made his turnover, as the case would be, and he did not need it any longer, he would naturally put it back into the same institution to stop the interest. As long as the asset is there, why should it not continue to function as money, currency?

Q. Is it your opinion that this new system which you propose would not lead to the terrific rise in prices which some of the members here have feared?—A. It could not, because if prices rose to any great extent—and I think most of the people will admit; farmers will admit that prices need to rise considerably, but as soon as prices rose to a point where they are above the cost of production, more people will enter that occupation and more production will take place and then your law of supply and demand will commence to regulate prices. But the people now who control this great volume of credit known as money can fix that to meet their desires by reducing the volume in circulation, that is demanding people to come up and pay these loans; they reduce prices. I would like to read a quotation from the notes of an address to the Wakefield Rotary Club by W. Bell, Associate Royal Institute of British Architects. This is in relation to inflation and deflation.

[Mr. G. Bevington.]

By Mr. Hanson:

Q. An Architect?—A. He is Associate of the Royal Institute of British Architects.

Mr. W. F. MACLEAN: He is a pretty good authority, I should say.

The WITNESS: (Reads)

“Over drafts were readily granted by the Banks to the joyful captains of industry, and all went merry as a Princess's wedding, but only for a short time. Not many months had passed before circumstances had changed considerably, and the Banks then gave notice to their borrowers that a certain percentage of the overdrafts must be repaid. Now whilst the overdraft from the Bank was mainly a book-entry of Financial Credit to the customer of a stipulated amount of “money”, the portion of the overdraft “called in” by the Bank was not also a mere book-entry, Hard cash and securities are necessary to meet repayment of overdraft, and manufacturers were obliged to make hasty sales of their goods in order to meet their obligations to the Banks. This meant selling “at cost” or at a small margin of profit only.

“A few months passed; then another percentage of overdraft was ‘called in’. A further sale of stock had thus to take place, but this time at ‘under cost’ otherwise the Banks had the power of making the borrower bankrupt. Still further reductions of overdraft were ‘called in’ by the Banks from time to time, with the result that goods were being sold at a fraction of ‘cost,’ and thus the full force of the slump was soon upon a disillusioned world. The fallacy underlying the triple-tongued cry for ‘increased production’ was clearly exposed; and the people at large, having crossed the Red Sea of Armageddon, are left wondering why they are not now in the Promised Land of Prosperity”.

By the Chairman:

Q. You said that the other day in much better form, just about 12 words, I think.—A. Probably I did.

By Mr. Good:

Q. I want to ask Mr. Bevington if his point is this, that the banks are able by bringing pressure to bear on the repayment of loans in certain industries and extending the time of payment in other industries—whether it would not unequally affect the prices and produce a greater deflation in one industry than in another, and that in so doing the result might not be to the advantage of the country?—A. The effect of inflation of course is to stimulate industry and produce volumes of goods. If inflation takes place before those goods are produced and that inflation on that borrowed capital has taken place—if deflation takes place before they have been consumed, then the person who has borrowed credit to produce goods, has no means of paying his borrowed money.

By the Chairman:

Q. And he suffers a loss; but Mr. Good wants to know what would happen if the deflationary process were applied only to certain producers by the institutions in Canada which controlled credit.

By Mr. Good:

Q. If it could be?—A. It could be, and I think, was.

By the Chairman:

Q. What have you got to support that? It is an important statement.

[Mr. G. Bevington.]

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Mr. HANSON: It seems to me that is a very serious charge.

The WITNESS: I make it in this way, if we look at the way prices in agricultural products, that is, the basic product, the primary product, such as wool—and then take the other products, such as lumber, mining material, and the like, these prices all fell first, while the finished products from these things remained up.

By the Chairman:

Q. And that happened in a great many countries besides Canada?—A. Yes, but it affected every country in the same way.

Q. There is no doubt about that, but was that brought about by the direction of the credit institutions of this country and other countries? That is the important thing.—A. I think it must have been.

Q. You mean to say that that is your opinion?—A. That is my opinion.

By Mr. W. F. Maclean:

Q. In other words, the banks are a private monopoly?—A. Yes. I want to explain that, if you will permit me, in this way, that if a banking institution loaning credits had actually loaned money out into circulation—if the bank notes or the Dominion notes had actually gone out into circulation, they would have been in circulation, and the control that was exercised by calling people to come back and pay their loans, could have been met by simply taking those notes back and handing them in.

By the Chairman:

Q. Would you allow me Mr. Good, to ask a question along your line. I assume your scheme was born of the desire to produce suitable credits for agriculturalists in the west?—A. Not only agriculturalists but everybody.

Q. I know you comprehend everybody, but really your mind is more active upon the needs of the western country?

Mr. W. F. MACLEAN: I would not say that.

The WITNESS: I will admit this, that I am more concerned in providing credit for primary production.

By the Chairman:

Q. I was going to lead up to something else. For the three prairie provinces is the complaint that there was not sufficient credit, or is it that the deflation was too rapid and brought about by the banks. Which is the complaint in the west?—A. If there were too great a volume of credit issued, I believe certainly deflation took place too rapidly. If there were not too great a volume of credit issued, there was no need of deflation taking place.

By Mr. Hanson:

Q. Have you already said that the banks were altogether too free with their loans in the west?—A. I would not say they were altogether too free, if it were necessary to do that in the interest of the nation.

By Mr. Good:

Q. You mean for a certain time?—A. I would not say they were too free.

By the Chairman:

Q. We had someone tell us concerning credits in the west. One class of men say the banks are not free enough in giving credit, and another class of men say the banks have been too free, even up to 12 months ago, in extending credit.—A. They are both correct. They would be too free if they passed the margin of safety. If they pass the margin of safety, then that should continue

[Mr. G. Bevington.]

until the people have properly paid off the obligation incurred in producing at those prices, and then be reduced. It is a matter simply of control. My contention is that any country that is a progressing country must continually inflate its currency.

Q. You mean increase the currency?—A. That is inflation.

By Mr. W. F. Maclean:

Q. It does not Germanize our country?—A. Not by any means. It means the circulating medium must increase just in proportion as the country develops. If it does not, you have no development.

By Mr. Good:

Q. I know very intimately the affairs of a certain farmers' organization, a business organization, which through certain causes, were scarcely or only to a very limited extent under the control of the members of this organization. This society got into difficulties. It had at that time a line of credit of about \$15,000 from one of the Canadian banks, but as soon as it got into difficulties, which happened just about the time of the very marked deflation in agricultural products, the bank immediately withdrew its credit from the institution. The loan was secured by personal notes of the members, and the bank immediately put pressure upon these members to pay up. Now I know one of the members, who had a fairly large amount pledged—his assets were quite large, but he had no ready cash, and upon being requested, or being practically obligated to pay up to this particular bank, he went to another bank to see if he could raise a loan for the time being until he could realize on some of his own products, and the other bank on inquiring the need or the purpose of the loan, immediately refused it. He was fortunate enough to be able to borrow the money from a relative, but the result of the bank's action, so far as I am concerned at the present time, which I do not wish to question from their point of view—they felt that the organization was in a precarious condition and that they had better get what they could when they could. Without discussing the propriety or impropriety of the banks' action in this particular case, and supposing that they were practically compelled, to safeguard their business generally, to take this procedure, would it have been possible under your system to have continued that line of credit so as to have given the farmers a chance to save not only their own products from being sacrificed, but to allow the organization to carry on?—A. No, not when their depositors have the right to demand cash which does not exist. That is the trouble with this whole process here.

Q. I am asking you this as to whether or not this other system which you are recommending could have met that difficulty, assuming the banks could not have met the difficulty, and they had to take proceedings and put the pressure on—and I think everybody will realize the social consequence of that pressure as well as the individual consequence—would there have been a way out under your system?—A. Yes.

Q. If so, what way?—A. If the asset was sufficient for the loan in the first instance that was being called, it would be sufficient for the loan in the other institution that we propose to create. You would simply go to the other institution and get the money and pay off the original loan, and the position of the man would be exactly the same, he would owe so much money.

Q. The bank did not question the security—they had, I suppose a dozen, or maybe twenty-five times the margin; there was no question as to that, but this was the procedure adopted, and I am asking you how far the other system would have met the difficulty, and in what way?—A. It would have met it just so far as the assets of the borrower were able to meet it. I cannot say any

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farther than that, because if a bank had wilfully, knowingly or anything of that kind, loaned a man more than his asset would warrant, and then demanded payment, why, the asset is all they could get paid with. In that case the man could not go to any other institution and borrow any more than that asset; but to whatever extent he was able, it would have stopped that process of deflation at the rapid pace that it was brought on; it would have had a tendency to check that and stabilize prices.

Q. Is there anything in the present system which would force the banks to proceed along those lines and to precipitate a crisis?—A. Yes, the simple fact that they were obligated to pay to depositors on demand an amount of money that was not in existence, and which they had probably lent out without a security on which they could realize, made it absolutely necessary that they should commence to hold credit extensions, every time that they got money paid into them they would hold it to meet the demands of a depositor; it would go out into circulation for a little space, and it would come back to the bank in payment of loans again, and they would pay it to a depositor; and that is the way those two sums were reduced from the two billions down to that amount in that year.

By Mr. Mitchell:

Q. Supposing, under your system by which the locals take security as you suggested this morning, that the security afterwards became of less value, what would happen in that case?—A. It would not become of less value.

Q. Why not?—A. Because you are not loaning on an article which would be classified as a consumable commodity, but you are loaning on a basic asset.

Q. Such as?—A. Such as a factory or a farm or a mine, or something that is a real producing institution.

Q. Take the factory, and if it was badly managed and had to go into liquidation what would happen?—A. You would only have loaned up to a margin of the actual value of the factory as a plant, not on its product.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING

WEDNESDAY, April 18, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock, p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: There is a quorum here. I understand that you have some questions, Mr. Good, that you desire to ask Mr. Bevington. Will you proceed.

Mr. BEVINGTON: Mr. Chairman, before we start with questions again, I would like to ask for about two or three minutes just to deal with one matter that has been raised before, the matter of inflation and deflation. It will only take me a few minutes to clear up the points I want to make, and then I will be finished as far as that is concerned.

The question has been raised a number of times in Committee as to inflation and deflation. I have been asked to state whether I am in favour of inflation, or in favour of deflation and so on. Now I want to make my position clear in that matter in this way; if there had been any point in past history where we could say we were neither inflated nor deflated, then we might talk from some point; but this being wholly a comparative term, inflation or deflation, and no point ever having been fixed that we could call normal, I do not

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see how we can answer that question to-day as to whether we are in favour of inflation or in favour of deflation. To my mind there is a need in every nation for a certain volume of circulating medium, a volume that will keep that nation's affairs at what we try to call normal.

By the Chairman:

Q. That may be quite correct, but I suppose what is in the minds of people when they speak about inflation these days, is the peak of credit immediately following the war, the last years of the war and up to 1920. I suppose that is really what they have in mind?—A. Well, we want to clear that point up, I think, Mr. Chairman, for the purpose of understanding in the Committee. The question that I would like to ask of the Committee is this: that being the case, that no point has ever been established that we can call normal, at the highest point of circulating medium in this country, were we really inflated then? How are we going to decide whether we were or not?

By Mr. Stevens:

Q. A new question of fact?—A. I am not able to arrive at any conclusion in the matter as to whether we were inflated before; if we were, we are certainly deflated to an extent now.

By the Chairman:

Q. You admit however that there was an abnormal inflation, not due to normal commerce, but to the war?—A. I admit that, yes. And I further submit also that previous to the war, we had periods of inflation and deflation and so on, if that is the proper way to express it?

Q. Certainly.—A. Now if we can find any kind of a circulating medium or any means of controlling a circulating medium, that will be more stable than that which we have had in the past, I think that is desirable, not only in this country, but in every country, and I think almost everybody wants to find that thing if he can. I think that was the idea in the back of people's heads when they undertook to stabilize things by a gold standard, to get to something which could be called normal; but we find that entirely inadequate to meet our needs. Now it seems to me we must find a point and fix that as normal, that will as nearly as possible meet the needs of the community or of the nation. Now in the solution that I have offered I have tried to find a regulating influence that would be as nearly as possible automatic, not left to any group of men or the like, or Parliaments and so on, to fix. The asset offered, itself, to my mind, is about the best method; I would not say it is the best, but it is the best that I have been able to think of anyway, that would regulate the volume of money for use in the channels of trade.

By Mr. Irvine:

Q. Do you mean, Mr. Bevington, that it can only be called expansion when you have more money in circulation than the volume of business of the country requires?—A. Yes, if it is required by the volume of business then I do not think it can be considered inflation. If it is less, then it surely must be considered deflation.

The CHAIRMAN: Then will you proceed, Mr. Good?

By Mr. Good:

Q. The other day, Mr. Chairman, Mr. Bevington referred to some figures comparing the cost of credit in the United States under this new scheme or Bill, with the cost in Western Canada under our present system. I should like to know if he has verified those figures, and if so, what is the actual relationship

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between the cost of borrowing under our system and the cost under the proposed new system in the United States; and also in that connection, if he would not mind linking up with that another remark of his some time ago, as to the effect of competition between the banks on the increased cost of carrying on this banking service. I think he referred to the situation in Edmonton where there were a number of bank premises and offices opened on the same street and intimated that there was a great deal of waste in that system, and I would like to know if it necessarily or inevitably increased the cost of the service. I would like if he would answer these two questions, and link them together and tell us, if possible, whether or not this United States system is expected to be self-supporting and at a decreased cost, or at the much lower cost which he mentioned the other day as about all that would be necessary or whether or not the United States taxpayers are expected to make up the deficit in that connection? Perhaps I have put my question in rather a clumsy way, but Mr. Bevington will understand it.—A. I think you have put several questions. Will you be good enough to separate them and give them to me one at a time?

Q. The first is as to the figures you quoted the other day, as to those costs? —A. One of the figures I gave was correct. The other one was not correct. The larger figure I gave as thirty-four hundred and fifty I think, and that should have been thirty-seven hundred and twenty.

By the Chairman:

Q. What had that reference to?—A. The cost of a thousand dollar loan to a farmer in the United States under their new scheme of loans, and the cost of a thousand dollars to a farmer in this country. I don't just happen to have those figures here but it would only take a moment to work out if I am not correct. The cost of the loan to the American farmer at a $5\frac{1}{2}$ per cent interest rate for 34 years.

By Mr. Spencer:

Q. Is not the rate five per cent that they are charging?—A. Five and a half per cent, I understand.

By Mr. Good:

Q. That provides for a sinking fund?—A. That provides for amortizing; the original loan of one thousand dollars at the end of that time would be \$1,800 and something.

Mr. STEVENS: A little over \$1,800.

Mr. BEVINGTON: Have you it there, Mr. Spencer? \$1,870 is it? That would clear the whole loan at the end of that time. \$1,000 loaned in Canada under our system at the present time of loan companies loaning at eight per cent, which is lower than they are now being made in the West, would amount, when finally paid, to \$3,700 and some few dollars; being a difference of within \$20 of 100 per cent in the total amount, and a difference of \$2,700 as compared with \$800 for charges for use of loan.

By Mr. Stevens:

Q. Of course you understand, Mr. Bevington,—the point is well taken, I think it is a very excellent illustration—that to be fair you ought to say this, that these loans in the West you are speaking of are usually loans of say five years or thereabouts; they are short term loans. This is a thirty-four-year loan on the amortizing system, which of course is a different system. What I think you are very properly expressing is that that system referred to, this American system, ought to, if possible, be put into effect in Canada more

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widely than it is. I think the point is a good one.—A. The point I really wish to make is this, that our costs are practically three times.

Q. It is a different loan, though?—A. Our costs of the loan are practically three times what the costs of the loan would be over there. Now we have got to meet that competition in the world's markets in producing goods. That is the point I wish to make.

Q. You might just as well compare a five-year loan with a loan of two or three days.—A. We have no other loans we can get here. Consequently if we continue with the system we are under we must meet that competition under those conditions.

By Mr. Coote:

Q. Mr. Bevington, do you know whether it is not a fact that the man who makes that loan in the United States can pay it off any time if he so desires?—A. Yes.

Q. So that as a matter of fact I think Mr. Stevens' point is not very well taken there. The United States farmer can pay his loan off within five years?

—A. He can pay it at any time within the period without any extra cost.

Mr. SPENCER: One question, Mr. Chairman?

The CHAIRMAN: Not unless it is on this point.

By Mr. Spencer:

Q. It is directly on this point. Mr. Stevens pointed out that this eight per cent is on short loans, but I would like Mr. Bevington to confirm my statement when I say that I know of loans running for sixteen years charged at eight and nine per cent in Western Canada.

Mr. STEVENS: Do you mean loans entered into for the period of sixteen years, Mr. Spencer?

Mr. SPENCER: For sixteen years, yes.

Mr. STEVENS: Under an agreement?

Mr. SPENCER: Absolutely.

Mr. STEVENS: Or loans that have been running?

Mr. SPENCER: No, under agreements, and they are going at eight and nine per cent.

Mr. STEVENS: Then it is too much.

Mr. SPENCER: Absolutely.

Mr. BEVINGTON: Most of our companies in the West to-day are prepared to write ten-year loans. I would not be sure but what probably all of them—I know in many cases they do—where applications are made for loans, they urge the borrower to take a ten-year loan rather than a five.

The CHAIRMAN: Proceed, Mr. Good.

By Mr. Good:

Q. The other question I wanted to link up with that was this.

The CHAIRMAN: A little louder, please, Mr. Good.

By Mr. Good:

Q. As to the West, that excessive cost of giving a service where you have a number of competing institutions, offering a service, as to whether that has any connection or not with the excessive charges in Canada?—A. Yes, it must have. A number of institutions competing with one another for a certain volume of business, any one of which institutions was capable of handling that volume of business, would simply mean an increased cost in the service.

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By the Chairman:

Q. I suppose that is true of grocery stores?—A. Yes.

Q. Of which we have an over-supply. If there were less the overhead would be less, but nevertheless the public would not endorse as a matter of public policy any legislation restricting the number of men who should go into the grocery business?—A. No, I would not think of asking for any such thing as that, but I think it is in the interest of the people themselves, the nation generally, that they establish some kind of a system that will provide credit at as cheap a rate as possible, but does not debar any individual from competing with that institution if he likes.

By Mr. Good:

Q. I am interested, Mr. Chairman, in another phase of Mr. Bevington's case, which I do not think he made very plain, as to whether or not our present financial system contains within itself the seeds of decay and collapse inevitably; whether or not it is capable of reform, if you like, or revival, or survival on the present basis or not. I rather gathered from some of the remarks that he made, that his opinion is that it is in itself a system which must break down.—A. I must confess that I believe that that is the case. I think that we have the evidence of that fact before our eyes, if we only looked sufficiently closely. Our smaller financial institutions that are a part, we will say, of the system, are continually passing out. Concentration takes place. In every case where a small unit, and the individual is the lowest credit unit, gets into financial difficulties, their asset passes into a higher or stronger unit. That unit in turn may fail, and it will again be taken up or absorbed in a still higher unit. That is the process going on in our banking system at the present time. If you follow that through the preceding years, you will see that we have not half the banks to-day that we had 20 years ago. That is the progress that this system is making. I might follow that to a final conclusion if the Committee would care to hear it. We recognize the right of people to give property as security. We recognize also the right of those who hold that security to take possession of property in default of payment. We recognize that as to the individual. We also recognize that to be a correct practice amongst nations. If a nation defaults in an obligation to a nation, the security or pledge that has been given may be called upon to satisfy the obligation. We find that to-day with the obligations of Germany to France, and France is simply doing in a national way what the individual does in a foreclosure proceeding; it is taking possession of property. France is simply taking possession of what she has a right to under an agreement or under a pledge; that is, by default in payment. France justifies herself because of the fact that if she does not realize she cannot meet her obligations, and she has a big obligation to meet to England, and she takes possession of German territory in order to meet her own needs. Now let us follow that along; France having taken possession of Germany and not finding herself possessed of any greater volume of that one single material in which payment is required of her, gold, must necessarily default in payment to England. She cannot produce gold out of Germany any more than Germany can produce gold out of Germany. There is no gold mining country in German territory at present. She can only produce goods and she must sell those goods to someone who has gold if she is going to pay in gold. Now the taking of possession of that asset, we will say the whole German Empire, does not give France any more gold with which to meet her gold obligation. If England then, following the same line of reasoning, says to France, "Now you have taken Germany, and Germany owes me and you owe me; if you don't pay I will have to do the same thing"—and England would have every right, if that is a proper

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procedure, to take possession of both Germany and France to meet her obligations. Now then England owes to the United States tremendous volumes of gold and having taken possession of France and Germany, England has no more gold now than she had before; consequently she cannot pay in gold. The United States may say, "This is a perfectly proper proceeding, now I will take you, France and Germany."

The CHAIRMAN: Mr. Bevington, no sane individual ever expected Germany to pay in gold.

Mr. BEVINGTON: But, Mr. Maclean, if you don't mind I want to follow this to its logical conclusion, and then I will be ready for questions. If the United States did that and took possession; then the money lenders of the United States, who are in possession of that tremendous volume of gold over there, would say to the United States: "Well, you have taken these people, now you pay gold." The United States is in possession of no more gold than it had before: it is only in possession of that gold that was already in the possession of the United States, and it belongs to the bankers of the United States. Now the bankers say, "Pay gold." The United States says: "I cannot pay gold unless you loan me the gold, because you have got it now." The result is that the bankers would foreclose on the United States, taking with them England, France and Germany. Now you have a banker owned and controlled world. That is the logical conclusion of that process.

By Mr. Stevens:

Q. You think we are drifting to that?—A. I think we are, and I think we can see it before us if we only acknowledge it.

By Mr. Good:

Q. Is not the gold in the United States held largely by the Federal banks?—A. No. It all belongs to the bankers, every dollar of it. They hold bonds payable in gold that cover very immense amounts, more than the nation may be in possession of and they are payable in gold.

By Mr. Kellner:

Q. The gold is largely owned by other countries hypothecated with the United States for securities?—A. No.

By Mr. Irvine:

Q. The gold is held internationally as well as nationally. That is the chief point?—A. It does not amount to anything more in its paying ability than the small amount we have, it is about the total that we own.

The CHAIRMAN: No person who knows anything about these things ever suggests that international debts are paid in gold. Domestic debts are paid in gold. We have gold supply to meet just the few demands that are made for payment in gold. The balances are sometimes internationally paid, sometimes that way. They do not amount to much. It would be foolish for Germany to be expected to pay \$10,000,000,000 when there are only \$9,000,000,000 in the world. Gold is only intended to create balances, the volume of commercial transactions, between nationals of one country and the nationals of another.

By Mr. Irvine:

Q. Paper money in Germany largely facilitated the production of goods?—A. That we are given to understand anyway.

Q. Therefore that issue of paper money in Germany enables Germany to pay her debts, because she could not pay it in years, provided they were payable in goods?—A. If they had been made payable in goods.

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Q. Therefore it was a good thing for Germany to do that. It created more trouble for the international financiers than it did for other people?—A. Apparently so.

The CHAIRMAN: You do not want other people to pursue that course?

Mr. IRVINE: The point is that we do not pay in gold either internationally or nationally, that we pay our debts in goods. Anything that can keep all the people working must be a good thing. If you succeed in keeping your people at work with paper money, no nation can go bankrupt. You cannot go back on that.

The CHAIRMAN: I said as between nations, gold is largely used for the settlement of balances.

Mr. IRVINE: That is of the exports of one country in relation to another, but exports being about the same there will not be any movement of gold one way or another, except for small amounts, but you must have gold to settle them, because gold is the only money that speaks one tongue in all nations. We have enough gold now presumably to meet the demands, as laid down by the Chairman.

WITNESS: Yes.

By Mr. Irvine:

Q. We would not have any less gold under your proposed system than we have now?—A. I hope not. I think we could increase.

Q. The gold question is not a question of paramount interest for us, unless we pay in goods. That is the main thing granted by all students of the question, and admitted by the Chairman. Therefore if the issue of more money in Canada—if it produces more goods, we are more able to pay debts after that than we are now?—A. That would logically follow, yes.

Mr. IRVINE: If the Chairman would point out any error in that, we would be very glad.

The CHAIRMAN: This is not a debating society. This is a Committee of enquiry.

Mr. GOOD: Will you permit me to read one sentence from Sir Thomas White's book, on page 14.

Mr. STEVENS: What is the discussion?

Mr. GOOD: The story of Canada's war finance.

Mr. STEVENS: What is he discussing in the paragraph? What is the subject of the paragraph? It is an easy thing to read a few lines from a book.

Mr. GOOD: The sense of the sentence is very apparent.

"Arrangements were made through Canadian banks to maintain liberal credits to their customers in order that the general business might not be checked."

The only point in my mind is that it does confirm what was stated, I think, that the granting of credits, what is the equivalent to granting of credits may be useful and necessary at times to keep up or stimulate production. That is the only point I wished to make.

The CHAIRMAN: Are you through, Mr. Good?

Mr. GOOD: I am not through, but I do not want to monopolize the time of the Committee.

The CHAIRMAN: I think it is better for you to get through.

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By Mr. Good:

Q. I have another question which has come to me in this enquiry, whether or not the banks are inevitably tempted at times to inflate when they ought not to, as to what are the conditions existing at such a time which would tempt them to inflate, grant too liberal credits—we will put it in these words—to the detriment of the national welfare?—A. Just what the banker would consider the inducements to loan, I do not know, but I do know what would be the inducement to the borrower to wish to loan. It would be the price offered for his products. If any man sees there is a profit in producing anything, he naturally wants to produce that particular thing. If then the banker is prepared to advance on the production of certain things because he also is convinced there is a demand for that particular thing at a profit, then I presume that both the lender and the borrower would be convinced of the need for credit extension in the production of that particular thing.

Q. That would probably be in the direction of the national welfare, not running counter to the national welfare?—A. That would not be running counter to the national welfare.

Q. My point was, whether or not there were times when the bankers are tempted under our present system to grant too much credit and too liberal credits to increase the volume of money or deposits, operating by cheques, which has the same effect, to the detriment of our whole industrial life?—A. I suppose banks do extend credit too far, and they cause over production, which brings under consumption later.

Mr. GOOD: I am afraid my question was not understood. What I had in mind may be made a little clearer by example. I was reading the other day about some munition factory in England, which I think at the present time is engaged in manufacturing munitions for a foreign power, and the point would arise in that connection as to whether or not financing of that particular line of production would be to the banker's interest, whereas the financing of something, say the manufacturing of agricultural implements in this factory, locomotives, would not be to the interest of the banker, and yet there might be a great difference so far as public welfare was concerned in those two lines of production. Do you get my point, Mr. Bevington?

The WITNESS: Yes, I think I do. It simply means this, that as we at present have credit extensions through banks, it is not a concern of the bank as to whether it is a national enterprise or not. The bank's only concern is the ability of that individual in his enterprise to return the loan with interest. That is its concern. It must be its primary concern, because it is not really loaning goods that belong to it but simply loaning other people's credits. He must therefore look to repayment rather than whether it is to the interest of the nation or not.

By Mr. Irvine:

Q. What in your opinion, Mr. Bevington, would happen to banks, if the people did not borrow from them?

Mr. STEVENS: They would have hard sledding, I should think.

By Mr. Irvine:

Q. What do you suppose would happen to them?—A. I would suppose they would get into some more useful occupation.

Q. Would it follow from your suggestion that it is to the interest of the banks to see people in debt?—A. That is the only thing they make profit out of.

M. STEVENS: What is that question again?

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Mr. IRVINE: Would it follow from your suggestion that it is to the interest of the banks to see people in debt.

Mr. STEVEN: As a primary object?

Mr. IRVINE: Yes. If they cannot stay in business except the people have debts, then surely if they have any self interest at all, they would like to see the people having debts.

The CHAIRMAN: A man may want to borrow money from a bank and still be very well off.

By Mr. Irvine:

Q. What do you say to that question?—A. If there were no borrowing, the banks would have no business. If there was borrowing, then there are debts. The fact of the matter is that the more debts that are piled upon the people, the more interest they must pay.

By Mr. Stevens:

Q. Do you think it is a crime for the bank to lend people money?—A. I have not suggested that.

Mr. IRVINE: It is a matter of fact. That is all we are dealing with. I am not dealing with crime now. The next point I would like to ask the witness is, if it is good business on the part of banks to see the people in debt. Would inflation be a good way to get people into debt?

The WITNESS: That just depends again on what you mean by "inflation". If you mean increasing the volume of money in circulation, and that comes through the banks, the banks would profit by that inflation. If you mean increasing the value of goods that would be to the advantage of the people to enable them to get out of debt, that is, the goods prices.

By Mr. Irvine:

Q. Did the banks or not increase their note circulation on the basis of the War Finance Act?—A. They did to some extent, but only a small extent as compared to the expansion of bank created credits, which have no foundation in money. They functioned and bore interest to the bank as if they were money.

Q. Which meant there was more circulating medium given after they did that?—A. Yes.

Q. If the price of goods is increased is it not reasonable for them to go into business?—A. Yes.

Q. If they were in business would it not follow they would be glad to sell goods at a certain price?—A. Yes.

Q. It would be natural for the bank to get people into debt, so they would get more out of the people that way. The banks then have the power to inflate if they so desire?—A. They have.

By Mr. Hughes:

Q. Under the system that you propose or suggest, would it be possible for people to get the money they needed without going into debt?—A. No.

Q. What would appeal to them between going into debt to the bank or to the Government?—A. After having gone into debt to a certain point to produce goods, they themselves would be in control of what the Government is in control of, or the produce of the banking institutions. They would have control of the volume of money that had been brought into circulation, and it could not be deflated on them until they wished to withdraw themselves. At the present time they have gone into debt and they have no option in the matter, whether the circulation medium shall be withdrawn or not. That is the basis on which

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the loans are made on the actual asset. They have an offer for the loan and they still have an asset; they can still command the loan under the scheme I propose. Under the present one they have no means by which they can command that volume of credit. The banks can call their loans any day they are due. I would like to make that clearer on the chart. Here is the volume of money, \$403,000,000. Here is the volume of circulating bank created credit, \$1,708,000,000. This is no representation in money whatever, which the banks have loaned, \$1,709,000,000. From this (indicating on chart) there are a little more loans than there are deposits, consequently they must have in circulation some of the \$403,000,000. Now, they have loaned four times as much money as there is in existence.

Q. Who has?—A. The banks, because that is from the banks' own annual statement. They have loaned four times as much money as there is in existence, both Dominion and bank notes. Only a portion of these are in circulation. The balance are in reserve fund and in the vaults of the bank. They say to the borrowers "come in and pay". Probably one-eight of these borrowers, if they got all of the money that is in circulation gathered up, could carry back to the bank enough money to meet their loan, and the bank would take it and refuse to loan any more money, and these borrowers have no place to sell goods because there is no money in circulation, then they are compelled to dispose of their goods to meet their loans. They are trying to sell goods where there is no money.

By Mr. Stevens:

Q. That is the practical working out of the present system?—A. Yes.

Q. You say that is actually done?—A. Yes, that is actually done; may-be not to that limit, but that is the process.

By Mr. Good:

Q. You mean, that is the tendency?—A. That is the tendency.

MR. STEVENS: He did say this, that that is what is done, namely that the banks arbitrarily withdrew that money from circulation and refused to put it out again.

THE WITNESS: I did not say they withdrew it all. I say they have drawn some, and their own statement will prove the contention. You take the period of the last three years and look over their own statements of loans and deposits, and you will see the amount of deposits were increasing from month to month, that they were loaning from this fund (indicating on chart), that is, while loans were increasing, there was more of this \$403,000,000 going into circulation. When deposits were on the increase in the last three years, there was more money on this (indicating on chart). In a period of inflation, loans always exceed deposits. In periods of deflation, deposits always exceed loans. That simply means that this money has been withdrawn from circulation and lodged in deposits.

THE CHAIRMAN: Mr. Bevington is giving his own views. It gets us right back in a circle to where we were the other day. Whether it was a good thing to stop inflation, I have not been able to get the witness to state yet where inflation should stop.

THE WITNESS: I said when the needs are supplied.

By the Chairman:

Q. That is an ambiguous and indefinite description?—A. We have never fixed any; neither has this system we have been following ever fixed any base.

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By Mr. Hughes:

Q. The very fact that the circulation of the bank is lower at some periods of the year than at other periods would go to show that there was not sufficient money in circulation, particularly at the lower periods. When we have currency that is elastic and that expands naturally, the people are getting what they need to carry on their business?—A. It does that arbitrarily.

Q. It does, when it contracts of its own accord.—A. It never has contracted of its own accord.

The CHAIRMAN: Mr. Good, will you finish your questions?

By Mr. Good:

Q. I hope you will not get too impatient at the lack of progress. It is an important question. I wish we could get this point elucidated a little better. Apparently there is a good deal of confusion in the minds of members present, and I find some difficulty in understanding Mr. Bevington's point. He reached this point, I understood, that in the process of inflation or granting of liberal credits, production would be increased and debts would be increased. If he could just follow the reverse process to show the effect of the deflationary process on the debts of the people and on their ability to repay their debts, I would be very glad for the moment. I have some other questions later.—A. If we had more credit in circulation than was needed, the people themselves would have gone back and paid off their loans, and if nobody had required to borrow more, you would have had deflation progressing naturally, but so long as there was not a sufficient volume of money in circulation that the people could pay off their debts, then deflation was almost criminal.

The CHAIRMAN: That appears to me to be an argument. You say, if the people could get more credit, if they could go into debt they could pay off their debts?

The WITNESS: Get more money.

By Mr. House:

Q. They would be going into debt and paying off their debts at the same time?—A. When this reached its peak. If that had stayed at its peak until the people themselves reduced the volume by paying off their loan, but the people did not reduce the volume by paying off their loans because the loans have not been paid off.

Mr. IRVINE: Might I follow this point for a moment?

The CHAIRMAN: If you promise to make it clear to Mr. Good.

Mr. HUGHES: I think we should concentrate on this for a little while, and get it cleared up.

By Mr. Irvine:

Q. Inflation takes place? A farmer undertakes to raise hogs and before he can realize on them, and before he can pay back his loan the bank has deflated, reduced the price of his hogs and when the bank presses for the payment of his loan, then he has less to pay for it, because there was deflation?—A. Yes.

Q. And he was forced to pay for some other reason. What was that, do you know?—A. Well, he was forced to pay because his note was due and his hogs had to be sold when they would not bring the price or the cost of their production.

Q. The banks had as a matter of fact, a reason besides that?

By the Chairman:

Q. Would not this be the reason: in the period of inflation or increase in price, there is a tendency for people to go into the production of goods and very

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soon you are not charged for these articles of production, which consumers will not pay for, and your period of deflation commences? I might say the banks should try to keep that deflation coming on gradually and not too precipitately. That is the way that comes about, Mr. Bevington.—A. Part of it. I cannot admit that that statement is correct. It may be partly correct, only.

Q. When you have increasing prices or what you call inflation of credit, that causes many people to go into certain lines of production and there comes a time when people will not pay these prices and there is no consumption equal to production?—A. I do not know that that is a correct statement, that they will not pay. I have never seen any prices that people would not pay for things they wanted, if they had the price to pay.

Q. Inflation always brings about these prices. The trouble with your wheat market is that the people of Europe cannot pay.—A. My point in this connection would be this, that unless there is a volume of money circulated through the process of producing goods, and remember, goods are not produced until they are a finished article and have reached the place of their consumption. Every transaction in connection with the production of any article, all along the line, from raw material to the finished article, where it has reached the place of its consumption, must be considered a part of production. If that whole process circulates an amount of money equal to the selling price of the article at the place of consumption, then your two articles balance. The article can be taken into consumption. If these two things do not equate, something is wrong with the monetary system.

By Mr. Good:

Q. Your point in answer to the Chairman, as to the inability of people to pay which the Chairman referred to, is explained by this, and other causes. It is not the primary cause, but the consequence of something else, and if so, what is it?—A. Let us go a little further with the example I have given if a volume of money is put into circulation equal to the cost of producing things, and before they have been taken into consumption, that volume of money is drawn out of circulation, either in taxation or interest payment or any other way, that money has been drawn out of circulation, then somebody must take a loss on the goods if they are to be sold, because you have a greater volume of goods than there is purchasing power in existence. A certain amount of goods must pile up somewhere, and without a purchasing power to equal the selling price of these goods, somebody must take that loss. That is usually found in various ways and people will go unemployed because of the fact that there are enough goods. They have no purchasing power, and they go into bread-lines. The city, the province, the Dominion, cannot sell their bonds or tax people who are able to pay taxes to bring money or purchasing power into their hands with which they can supply these people with purchasing power. You have always to bring together the people who need to consume and the purchasing power before a credit can be established. These two factors are essential in any market, necessity to consume and a purchasing power; then you can go on purchasing and selling goods. Any time you have portions of your people without purchasing power, having purchased goods and goods stored out, you have in some way or other drawn out of circulation the purchasing power that should represent that volume of goods and the balance can not again be effected until that amount of purchasing power is put out into circulation, into the hands of those who require to consume.

Q. Does our present system lead to the withdrawal of purchasing power?—A. There are only \$1,708,000,000 that might be called by depositors. The result is that when these depositors call for that amount of money, to meet that required purchasing power, the bank could only pay out, if they paid out all,

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\$403,000,000. They could not meet it. They must call on these borrowers. If the bank said to the borrowers "you come back and pay this yourselves. We are required to pay this amount", then you have a further rush of goods on an already glutted market. That does not release to the man who is required to pay, any paying ability.

Q. Does that operate to the advantage of the bank in any way under the present system?—A. I could indicate an instance showing some indications as to how it does. I do not wish to mention any names of banks. I will give you what happened. In the southern part of Alberta a certain bank had made a certain amount of advances to people against horses. They were not able to meet their payment on demand. The horses were their security, but they were not able to pay back.

By Mr. Hughes:

Q. The security would not be so good if the market for the horses declined?—A. What made the market for horses decline? The lack of purchasing power.

By the Chairman:

Q. If your market for horses were a foreign one, would the new monetary condition, such as you outline, affect that condition?—A. I do not like the record to show the question half answered.

Q. Mr. Hughes asked you a question?—A. I was answering him and I had not got through. I was simply answering the question; I had not got nearly through. The bank closed on these horses, they amounted to several hundred head, they put them up at auction, as usual, a foreclosure procedure, and bought them in at \$13 a head because nobody had any money to buy horses with. They took them over into another province where there was need for horses, where there were people that had land to break and the like of that, a new place where it was opening up, but they had not any more money than the other people where the horses were taken from—the same bank had branches in that particular part of the province; they took them over into that part of the province. A lot of these were young horses which had never been broken; they put men breaking them, and then they sent them back to the settlers in that district, and the same bank loaned those settlers money to buy the horses at \$80 a head.

MR. HUGHES: I see the point, but there is something peculiar about that transaction.

WITNESS: Now, what is your question, Mr. Chairman?

By the Chairman:

Q. My question is if the market for the horses were a foreign market, and the domestic prices declined by reason of the lack of demand in that foreign market, could your suggested monetary system cure that condition abroad?—A. No, there is no national system that can affect international prices.

By Mr. Hughes:

Q. Just another question; could not the first owner of the horses ship them, if there was a demand in another province?—A. But this was not all under one man's control. The bank had a mortgage on very many men's horses, and they were in small lots, their work teams, and so on, and they took them and took their colts, and they gathered them together and it made a considerable number of horses, some six hundred head, and they shipped them to a point—

Q. I think the bank must have been compelled to do that in order to get anything, because I know as a matter of fact that if a man has goods upon which he can realize the bank will allow him to realize and pay his obligations?—A. Suppose when these horses were sold again at \$80 a head, they were the same horses—

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Q. No, they were not, because they had been trained to work, and they had been improved, conditions had been entirely changed?—A. Yes, the conditions had been changed, they had changed ownership, the horses had.

By Mr. Good:

Q. If Mr. Bevington is through I will return to the question that we were discussing some time ago as to the distribution of credit. I think I cited a case of a munition factory in the Old Country; I want to cite another hypothetical case to illustrate the point, and ask Mr. Bevington a question; supposing in a community that some industry is established which is socially injurious, but yet individually profitable to the people who are carrying it on—I do not wish to cite any particular case, perhaps I might give offence to some person, but you know what I have in mind—supposing the proprietor of this socially nefarious business could prove to the bank that it was a very profitable business, and they had great security, and it could pay a very good interest on the loan, then under our present system would there be a disposition to grant the loan and encourage that business to the detriment possibly of some other business which was socially useful but not as profitable, whereas if the distribution of the credit was at the option of a local society, the credit would be given to the socially useful enterprise and denied the socially injurious enterprise—is that a point where the system you advocate would be more advantageous than the present system?—A. I think that would logically follow that that would be the case. At the present time there is no restriction to what extent or for what business a private institution such as a bank may loan. It can loan on anything to whatever extent it feels like it.

The CHAIRMAN: How would you cure that, Mr. Good? You would have to change human nature.

The WITNESS: No, I don't think so.

Mr. GOOD: I think it would be very useful to us if we could find out how we could cure that; I am asking Mr. Bevington.

The CHAIRMAN: Supposing you take chewing gum, an absolutely useless stuff,—millions of dollars of it sold annually,—you say that no bank should loan money to a manufacturer of chewing gum if some other more important industry required the money. Now what would happen? If he were making money for the manufacture of gum he would issue bonds or stocks, he would sell them, and all the good people of the community would buy them if they were sure of their interest on them; there would be no exception at all.

Mr. IRVINE: We are not arguing this—

The CHAIRMAN: I am answering the suggestion.

Mr. GOOD: I cannot answer the question, but I see a very important matter there, and if there was a way out, and even if the proposition which Mr. Bevington has made would be a solution of that, it would certainly be worth considering, in my judgment.

The CHAIRMAN: What line of business have you in mind, liquor?

Mr. GOOD: We will say narcotic drugs.

The CHAIRMAN: That is an unlawful business in Canada. You cannot get money from a bank for that.

Mr. GOOD: I would infer Mr. Bevington knows as to how his system would operate to the advantage of the country in that particular respect?—A. You cannot expect by legislation to prevent individuals from doing what they like with their assets. Now, credit extension does not necessarily mean that you are compelled to use individual asset in making that extension; that is where the

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difference between the system that I propose and that that now exists is, it would be a public institution circulating the credit of the whole nation, broken up into ten-dollar bills if you like, to the people who wanted to borrow for useful production. You establish a unit then that deals with the person who wants to borrow, and that unit itself decides on every loan that is made, and has a personal asset of its own at stake in that local institution. Now, if that local institution then decides that it wants a brewery, you could not keep those individuals that are in that local from establishing it unless you put a law on the Statute books; but if the community did not want it, and that unit composes the community, then they could not borrow the national credit to establish the institution.

By Mr. Hughes:

Q. What is the personal asset they have in that unit?—A. Whatever they put in.

Q. What would they put in; what is in your mind that they would put in?—A. Well,, suppose that your provincial government passed a Cooperative Credit Societies Act and so stated that the Society must be composed of a certain number of members who would purchase a certain amount of stock; now, after they have set themselves up they have a legal status, and they have a certain amount of capital invested.

Q. Purchased the stock with what, with money?—A. With their own assets; you cannot purchase anything with money; money is only a promise to pay; you have to purchase with an asset.

Q. Do you mean real estate?

Mr. STEVENS: With their chickens.

A. Yes.

By Mr. Hughes:

Q. Purchase it with a promise to pay, a promissory note?—A. A mortgage on their farm or anything else.

Q. Lodge that with his local unit?—A. Yes.

Q. Or a promissory note?—A. Or sell some of their product for Dominion notes.

The CHAIRMAN: Do you think it is worth pursuing that particular point any further?

Mr. GOOD: I think it is a very important point; it may arise again. Just in this connection, the case cited by Mr. Bevington—

Mr. STEVENS: Will Mr. Good permit me to interrupt; while he is pursuing an interesting investigation, would he mind reversing the situation just as well?

Mr. GOOD: I do not understand the question.

Mr. STEVENS: Go ahead, then.

Mr. GOOD: I think if it is possible—I don't know how possible it is—but there seems to be a tendency in our system not to discriminate in the matter of loans in the public interest and welfare, whereas it strikes me in the other system there would be.

The CHAIRMAN: Is not that a question that would be better put to the bankers when they come here?

Mr. GOOD: I will leave that question if you wish.

Mr. STEVENS: I was going to ask the witness this question.

The CHAIRMAN: Mr. Good has the floor.

Mr. GOOD: Let somebody else have the floor, Mr. Chairman.

The CHAIRMAN: I would rather have you finish.

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Mr. Good: I do not want to monopolize the time of the Committee; let anybody who wishes ask a question. I have some more papers to look up meanwhile, and if you call on me later I will be ready.

The CHAIRMAN: Mr. Stevens.

By Mr. Stevens:

Q. As I understood Mr. Good's question it was this, there might be a tendency on the part of the local unit to which this system proposed refers to give scrutiny to loans and advances from the standpoint of the moral welfare of the community. That is the point. If you had a community whose moral status is low, and I confess I know of one or two in Canada, would not there be a possibility of the group in control in that locality reversing the situation and making loans for immoral purposes? I only ask the question to show that this is a two edged sword that Mr. Good has brought forth?—A. It is possible that that might take place, but I think hardly likely. The unit as I have described it would have a certain amount of its own invested capital that it might loan, but it would not be a very large amount; it would be dependent upon taking securities to the provincial units that were acceptable there in exchange for notes. If the provincial unit said this enterprise that you want to propagate is not in the interests of society and we won't advance you on that security, they could not go any further than their own private investment.

The CHAIRMAN: Mr. Good, I would say that banks pay a greater regard for national interests in the loaning of money than private individuals do, because private individuals will put their money into almost anything, if you can satisfy them of a good return, and they will go into things that a bank would not think of investing their funds in.

Mr. Good: I think that is quite true.

The CHAIRMAN: You could organize a company to get gold out of salt water, and all sorts of crazy schemes like that. They get their lesson, and if they have anything left they go to the bank and they say, "Will you be a financial guardian and look after the residue of my wealth?" Banks make mistakes; they are only human.

WITNESS: Is not that much like saying that the moral character of the managing Board of a bank is higher than the moral character of this local unit which in itself would be a local institution?

The CHAIRMAN: No, I don't think that is a fair inference. I say the business judgement of a select few is better than the business judgment of the masses of the people, because they won't take time to inform themselves. You have been at a circus and seen a sensible fellow guess which shell the peanut is under, and all that sort of business?

WITNESS: Even bankers do that.

The CHAIRMAN: Sometimes when they get out on a Saturday afternoon, or something like that.

By Mr. Hanson:

Q. In a report presented to the Provincial Treasurer of Manitoba recently, with respect to their co-operative loan societies, is not there a finding to the effect that the co-operative loan societies in certain portions of Manitoba made the fatal error of lending to their relatives on very questionable security, and that gave a black eye to the system?—A. I am not just familiar with what is contained in the report.

Q. There has been a report to that effect in the last few weeks?—A. In talking to the manager of that institution a couple of months ago, his statement

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to me was that the difficulties that they were experiencing now were from the fact that farm produce prices had dropped so low that the borrowers were not able to pay, and if foreclosure proceedings were put on, owing to the fact of produce prices being so low, the value of the farms had also depreciated, and they could not sell the farms for enough to meet the loans; that was his main contention.

By Mr. Coote:

Q. Do you not think it is a fact that many banks in Western Canada are in exactly a similar position to the society you are referring to?—A. I would not say in Western Canada, because most of the banks with us really have their head office in Eastern Canada, and the banks, some of them, at the present time I understand are not in very good condition.

Q. I simply mean the local offices in the west, the branches of some of the banks?—A. Yes, there are, any amount of them.

Mr. SPEAKMAN: I might say in connection with Mr. Hanson's suggestion as regards the Manitoba situation that that report was somewhat discredited by a letter which accompanied the report, which stated that a full investigation into individual cases and into the operations of the local society had not taken place, and it was simply an assumption on a very cursory examination, if any examination at all.

Mr. IRVINE: Following up Mr. Hanson's question, it would appear that after deflation was started by the banks in Canada, and they were curtailing their credit to the public and to industry, they increased their loans very materially to bank directors; so that it was seen they were not immune from that weakness any more than a community would be.

Mr. BIRD: I wish to congratulate Mr. Bevington on the able grasp he has displayed in regard to this subject. The thing appeals to me not as a financier, because I am not that; I have not gone very deeply into this subject, but I am interested in the age long effort of the people to get possession of their own affairs; and as I have listened to you, Mr. Bevington, it has seemed to me that there is some evidence of the emergence of the people in the realm of finance. I do not know that you are right, but you would go a long way to convince me you are right if you could show that the people at this stage are capable of borrowing wisely, of using what is their own credit—I agree with you there—if you can show that the people of Canada at the present time, especially the farmers of Canada are capable of wisely using their own credit, and that they will not abuse it. If you can show me that they can use this privilege to advantage without injuring the credit of the country I think you will have convinced at any rate sufficient of us that we will be able to discount the claim of any one who is wedded to the idea that the people must always be under the leading strings of other people. As I understand it the banking system of any country has absolute discretionary power over the granting of credit. I conceive that that is only a temporary phase like other temporary rules, and the time is coming when the people will take control over their own affairs, especially financial affairs; you were advocating the transfer of these discretionary powers from the bank to the people, is not that it?

WITNESS: Yes.

By Mr. Bird:

Q. Do you think we are in that condition at the present time whereby you can entrust that power to them?—A. I think we are.

Q. You think these locals you mention would in the large treat this privilege in a way to maintain the credit of the country?—A. That would be safeguarded. You have a credit society formed there that passes upon each

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and every loan; that credit society is limited in the amount of the loans it can make by the fact that if it does not take good security, satisfactory to the provincial unit—and remember the provincial unit's credit is behind their transaction—you are safeguarded there then by the fact that they cannot loan more than the provincial unit is willing to discount.

Q. Your contention is that the safeguard is an automatic one?—A. Yes.

Q. And does not rest in the character of the people at all?—A. Now then, the length which the provincial unit can go is again regulated by the willingness of the Treasury Board to rediscount on the paper that the units hand over to the Treasury Board—each stage is limited by the authority of a higher controlling body; I think that you have it in the highest and probably most intelligent body—if we do not look at what we see in the papers with too much of a critical attitude, I think we will admit at least that the central governing body of Canada should be composed of as able men as there are in the country.

Mr. IRVINE: Hear, hear.

The WITNESS: The papers do not always so say; but it should be anyway.

By Mr. STEVENS: Wherein are the people any more free, according to Mr. Bird's phrase a moment ago, by that process than by the present?—A. The fact is that the provincial institution, and the manner in which it would grant credit, would also be regulated by the body of elected representatives of the province, who would fix the class of securities and the margin of safety to be observed in the provincial unit. The Federal Parliament would also fix the volume as compared to the asset that they would loan on the class of security that the Treasury Board would accept.

Q. Pass upon the value of the securities submitted to them?—A. No, have nothing to do with the value of the security.

Q. Not pass upon the securities submitted to them?—A. No; if the security conforms with what the legislative body have said, that they must or must not, as the case may be, loan on; they have no discretionary power in that, if the security itself is of the class and kind and margin of safety.

Q. Who determines whether it is of that class?—A. You start back with your local unit.

Q. They determine absolutely?—A. No.

Q. Who has the discretionary power?—A. I say you have every one of these along the line; the first instance the borrower has an asset that he wishes to borrow upon, the local unit can only loan up to a percentage of the estimated value of the asset.

By Mr. Hughes:

Q. Who is to estimate the value?—A. That local unit, and when they go to use that paper as collateral to the provincial unit, they also put up their collective credit as a guarantee. They have paid in a certain amount of money into this local unit, probably \$10,000, and they put up their note or their security, whatever it is, in whatever form, with this mortgage as a collateral to that. Now, then, they give that to the provincial unit if the provincial unit is satisfied to take it; if they are not satisfied to take it that local unit cannot make that loan.

Q. A moment ago you told me these assets in the local unit would not consist of money; now you mention the sum of \$10,000 in money?—A. I said they put up the guarantee—they had an investment of \$10,000; I still say that.

By Mr. Irvine:

Q. I would like to follow up this question of Mr. Bird's a little bit further; in your opinion have the bankers had infallible judgment so far on their loaning

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of credit?—A. If we look at the Merchants Bank I think we would have to say no.

Q. If they have not been infallible it does not follow that except we can prove the infallibility of the people to do the same thing your system would be a failure, does it?—A. I think you are right.

By Mr. Hughes:

Q. This local unit would naturally and necessarily appoint a few men as an executive to pass upon the value of these securities?—A. Yes.

By the Chairman:

Q. If the Alberta Government refused to make an advance on say one class of commodity which was prohibited by Statute you would have a political party organized on the basis that that class should be recommended as a basis of credit; you would throw the whole thing into the furnace, would not you?—A. No; I have not suggested they would do anything of the kind.

Q. No, you forgot to suggest it; I am suggesting it.—A. I have not suggested that you put the present banking system out of business at all; I have said the Provincial Legislature should fix this credit, as the Federal Legislature would fix the class of securities and the margin of safety to be observed in the conduct of the unit.

By Mr. Hughes:

Q. I want to follow that; then the provincial legislature would appoint a certain number of men to pass upon the value of the security that would be offered to it?—A. No.

Q. How would they arrive at the value?—A. The unit.

Q. The unit would bring its securities to the provincial legislature?—A. Not the provincial legislature.

THE CHAIRMAN: Not to the legislature, but the Provincial Credit Association.

WITNESS: A chartered bank under The Bank Act, with a capital paid up, the capital stock resting in the Treasury of the Province.

By Mr. Hughes:

Q. And these people would be better qualified then in your judgment than the managers and directors of the banks as they are now established?—A. I claim that the men in the local unit personally interested with their own capital invested are in a better position to pledge the value of a security offered as a loan than the manager down in Montreal is capable of judging by a letter sent from a local point we will say in British Columbia.

Q. In some things he might be and in some things not so good?—A. Further I would say that that local board or local unit there is better qualified to judge the value of the security offered than a young man who has just come out of a school to manage a bank.

By Mr. Shaw:

Q. Mr. Bevington, as I understand you, the local unit would fix the character of the securities which might be taken in exchange for a loan?—A. The local units do not fix that at all except on every application as it is made.

Q. In any event the provincial government would fix the character of the security?—A. Yes.

Q. As to the valuation of the security where would that duty fall?—A. That would fall on the local unit.

[Mr. G. Bevington.]

Q. Can you indicate—perhaps I could assist you, are you aware that the provincial government, many provincial governments now fix the nature of securities for trust purposes; for instance, they determine that certain securities of the province it will be proper for a trustee to invest in, and they also indicate that real estate may be taken as a security subject to certain safeguards, I think not more than two-thirds must be loaned on real estate, on improved real estate, and there must be an appraisal by competent appraisers; that is the situation in the Province of Alberta, is it not? Would there be any greater difficulty in fixing the character of the security that might ultimately be approved by the provincial government in the proposed plan which you have?—A. I do not think there would be as much difficulty in fixing the valuation and not as much expense attached to it.

Q. Then as I understand you, the valuation would be undertaken by the local unit?—A. Yes.

Q. Would the Provincial Government have any means, or do you propose that they should have any means of approving that valuation?—A. The Provincial Government or the financial unit would not necessarily need to be so particular as maybe you might be suggesting, because of the fact that the paper security that was taken in the local unit would also be backed up by the whole of the property of the unit itself.

By Mr. Hanson:

Q. That might not be much?—A. That would depend on the Act which you have put in force.

By Mr. Shaw:

Q. By the Local Credit Society?—A. Yes.

Q. So that if I judge your plan correctly, it is an extension of the Rural Credit Society scheme to such an extent that you can ultimately borrow Dominion Government notes, to be determined and approved of by the Federal Parliament?—A. Yes.

Q. That is substantially the scheme?—A. Yes.

By the Chairman:

Q. What is your local unit, a society or a bank?—A. Those local units would have to be organized under an Act of the Provincial Parliament.

Q. With some capital?—A. Certainly.

By Mr. Irvine:

Q. It is suggested that this scheme of yours might bring the question of banks, finance and so forth into politics. Would you suggest that they are out of politics now?—A. I would say they are almost the controlling factor in politics now. (Laughter and applause.)

By Mr. Shaw:

Q. Would you make that clear?

The CHAIRMAN: No, we will not take time with that.

Mr. STEVENS: It is very obvious, I think, that that is rather an insulting insinuation. Very obviously, I say, an insulting insinuation. Unless the witness has something definite in mind, I think he has no business whatever in making any such suggestion. Simply because an individual dares to offer questions to a witness along this line, the insinuation is that ipso facto he must be a tool of the banks. That is the inference and that was reflected in the derisive laughter from those who laughed on that occasion.

[Mr. G. Bevington.]

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Mr. BEVINGTON: Mr. Chairman, if you like I will submit a quotation from the Chancellor of the Exchequer, Mr. McKenna, which even goes further in that statement than I went.

By Mr. Irvine:

Q. I would like to hear that statement.—A. I do not know whether I have it here.

The CHAIRMAN: What Mr. Stevens suggests is that it was a general statement, and generalizations are false usually. I suppose he means that you should have explained what you meant.

By Mr. Bird:

Q. Would you repeat your statement?—A. I would like to put Mr. McKenna's statement on record.

The CHAIRMAN: No, put your own. You made a statement; never mind Mr. McKenna; give your own.

Mr. BEVINGTON: My own is this, that with the present condition of finance or financial control, existing not only in Canada but in the rest of the leading countries of the world, the financial power is now able to almost dictate politics.

By Mr. Good:

Q. To govern us?—A. Yes.

Mr. BIRD: In confirmation of that, I refer to Hansard. I remember distinctly last session that responsible persons on a particular side of the House made the charge that the Liberal Government had been returned to power with the support of the financial interests of this country.

The CHAIRMAN: Do not take too seriously all you read in Hansard. Go on then, Mr. Irvine; we want to finish with this witness to-day if possible.

By Mr. Irvine:

Q. I won't take but a few minutes if Mr. Bevington can answer questions as fast as I am going to ask them. There were a number of objections, Mr. Bevington, raised to your proposal on the ground that they feared instability. Would you suggest that the present system is thoroughly stable?—A. So long as the public credit that has been legislated, as shown by this chart, in under this institution, remains there, it can continue to function. Sir Edmund Walker, I think you will find, in his little booklet here, states that it is very dangerous to withdraw that public credit or that support at the present time.

Q. Then I understand that the real support of our present financial system is public credit?—A. Yes.

Q. If the financial system in Germany or in France were to collapse, would it follow under the present arrangements that ours would also collapse?—A. In Germany and France?

Q. I mean, we have an international financial arrangement, have we not?—A. Yes.

Q. And if that breaks down in one country will it not jeopardize it in all countries?—A. It will very seriously affect other countries.

Q. It would be then perhaps to our advantage if we had some knowledge of a system that could function at least in Canada in the event of the international financial system breaking down?—A. Yes.

Q. Now as to the real basis of credit, Mr. Bevington; did I understand you to say that the real basis of credit was labour?—A. Yes.

Q. Also that gold could only be considered part of the national credit as a product of labour?—A. Yes.

Q. Is gold the basis upon which the banknotes are issued?—A. No.

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Q. It was said to-day that the banks redeemed their notes in gold, or redeemed their notes. If they did redeem their notes would it be possible to have a pyramid of the system such as you have described?—A. No, it would not.

Q. Would there then be any real difference as to the basis of credit if your system were introduced?—A. No.

Q. That is, the social credit being the basis now, it would continue to be the basis under your proposal?—A. Yes, certainly.

Q. Next I would like to ask you if the Treasury Board can discount for the banks, in your opinion, could it not also discount for the people direct?—A. Yes, it could. Whether it would be desirable to do that directly or not, is a different question.

Q. Did we increase our gold, did you say, by 62 millions last year?—A. According to Greenshields' Review.

Q. Will you tell us who did it, why it was done, and how it was done?—A. I cannot go all the way in answering that. According to this review 38 millions of that gold was purchased by the Dominion Government; and 24 millions by the banks. The amount purchased by the Government was added to the Federal gold reserve. It is not stated what was done with the amount purchased by the banks.

Q. With what was this gold purchased, do you know?—A. I think that would have to be answered by the Minister of Finance or some of the bankers. I do not know of any other person that could answer it.

Q. Then it would have to be purchased with goods or securities would it not?—A. One or the other, yes.

Q. There is nothing else to purchase it with. Then we assume by this purchase that we gain in the transaction. Supposing it was purchased by bonds, what did we gain by the transaction?—A. If we gave 38 million dollars' worth of bonds for 38 million dollars' worth of gold, that amount that was purchased by the Government, we would have changed an interest-bearing obligation to pay for a non-productive gold asset. We would have lost, to my mind, the difference of the interest in the transaction. We have increased our asset on the one side and our liability on the other side, with a percentage added to our liability.

Q. Then the gold we had prior to that had carried us through the crisis of the war?—A. Yes.

Q. On the basis on which Mr. Maclean says gold should rest?—A. Yes.

Q. Or functioning as it should function. After deflation started, in your opinion there would be less requirement for gold than there was before?—A. You would think so.

Q. You would think that would be natural?—A. Yes.

Q. Therefore there is really less need for us to purchase gold now than there was two or three years ago?—A. That would seem to follow.

Q. Then if that is good reasoning would you suggest that the bankers were perhaps getting a better position before the Banking Act was passed, in buying this gold?—A. I could not say as to that. There may have been some such reason for wishing to increase the amount of gold just at this time. I could not say as to whether that was the real reason or not.

Q. What in your opinion is interest, as briefly as you can state it?—A. When applied to money, interest is the charge for the use of credit instruments that are based upon the national credit.

Q. How is the interest paid?—A. Always paid with goods.

Q. Could you describe the process?—A. We will suppose that the nation as a whole borrows money—and we do that—and the people of Canada have borrowed all of this money as indicated in this chart, and they require it for

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the doing of their business throughout the year. We will suppose that it was all borrowed to be payable back at the end of the year, and that at the end of the year the whole of the people could bring back to the place where they had borrowed it all of the dollars that they had borrowed, because there would be that many dollars in existence, they could bring those dollars back; but they could not bring any more dollars unless they had sold some goods to some other country to get some dollars. Now if they were able then to come and give back all of the dollars that they had borrowed, and bring back the interest too, and pay that with dollars, then they must have sold goods to get the difference. The result would be that the people of Canada would have paid their interest with goods.

Q. Would you follow that up Mr. Bevington, and give us what in your opinion is the relation of this pyramiding debts to international strife, is there any relation there?—A. In order to pay the interest, it is necessary that markets outside of each and every country be found for the surplus amount of goods, because every nation requires to pay interest. Every nation is in debt. In order that that interest may be paid in money, every nation will have to sell more goods than it buys. Now, who is going to be the buying nation? Every nation then must sell more goods than it buys, if it is to pay its interest. Now, we might look at it from a national standpoint for a moment, and a great portion of this interest is paid in the country, to people within the country. If that interest is to be paid then, it must be paid with goods just the same as the other outside is paid, and the consuming ability must be in the country itself or in the people themselves who receive the interest. If they have a consuming ability, they have ability to take and consume the volume of goods equal to the interest bill. Then the interest bill can be paid, because we can produce the goods if those people find a consuming ability equal to taking that volume of goods.

By Mr. Ladner:

Q. I just have one more question to ask. It has been brought out in the discussion, at least, by those who have been questioning you, that they are afraid that you would not be able to place any limit on credit issue. Is there any limit placed now, beyond that which you would place in there?—A. There is less limit there than what I would place.

Q. Will you describe briefly how the bankers issue their credit?—A. A borrower goes into a bank, does not necessarily pledge an asset; he may give a note. The banker discounts the note, and places the proceeds to the credit of the borrower. The banker enters up the note as an asset in the bank in his account as a deposit, and also the loan as a loan. Now the banker, has not loaned out any money. He has taken in a note, entered on both sides of his ledger a loan and a deposit. The borrower gets a cheque book and starts out to check against his deposit. What is on deposit? Nothing but the note, backed up possibly by some collateral security. The check then operates in trade just the same as if there was money. The volume of circulating medium has actually been swelled by that process. To whatever extent a bank, in its discretion, is willing to make these advances against a note deposit, it can increase the circulating medium to any height.

Q. There is not much sign of a limit there, is there?—A. No.

Q. Now, when Mr. Clark would regulate the currency issue under your system, would it have the relation, in other words, to the volume of business, or would it go to the extreme limit of your assets?—A. It would be limited by the margin of safety in the asset, I do not think enough to exceed the value of the

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asset. I might answer a little further than that, that the basic assets of a country are many times the volume of the annual production of that country. It is only the annual production of that country that circulates through the channels of trade. Therefore if we proceed on the assumption that the basic asset is equal to ten times the volume or value of the annual production, we have a basic asset capable of carrying a credit ten times greater than the need that exists. You only need to use credit for the circulation of goods produced, which under this example, would be one-tenth of the value of the basic asset. So as soon as that business had been performed, the carrying on of that commerce, that money would go out of circulation automatically. No person would borrow against his basic asset more money, even if he only paid one per cent for it, than he needed, to circulate his products.

The CHAIRMAN: I should like to finish with Mr. Bevington this afternoon.

By Mr. Ladner:

Q. Did I understand you to say that there should be no interest charge on these credits?—A. No, sir.

Q. You referred to payment of interest a moment ago, about the total business done—taking an ordinary business transaction, is not interest simply one of the costs of production? Could it not fairly be assumed as being a cost of production?—A. The whole of the interest is not necessarily that.

Give a concrete case?—A. motor manufacturer, a manufacturer of motor cars, has to finance his building and labour himself, but he needs a little more of different articles, so he borrows a proportion of the capital which he requires. Will you admit that it is reasonable and necessary in our economic system, that the portion he borrows from a bank should also have a return on it?—A. Equal to the cost of the service.

Q. Well, what was your point in connection with the interest charge?—A. My point was this, that the bank does not loan him anything. It takes his note, guaranteed by his assets and it allows him to check against the deposit of his own assets. Now then, the bank charge should be the cost of giving that service.

By Mr. Garland:

Q. How would you describe the service?—A. In this particular instance that we are discussing, the cost of the service would simply be keeping the books of the transaction and maybe a small amount to cover any risk.

Q. Your point is that the banks charge too much?—A. I have not made that charge.

Q. You did in answer to a question I put at the second meeting?—A. I think I should make that charge.

Q. The banks charge too much, and some system, or a national bank, operating through the Governments and local associations could render this service for a less charge. Is that not about what your proposal is?—A. I have not said that they could. I said, at cost. I recommend that it be done at cost. I think it would be in the interest of the automobile manufacturer you are speaking of that he get his credit at 5 per cent rather than at 8 per cent, if they can render that service.

Q. Who is going to render that cheaper service?—A. Surely not the system we have now.

Q. Then you suggest the system you propose would be the one that could do it?—A. I think it could.

Q. Your whole proposition is this, that the nation can carry on the banking operations of the country and render the facilities and services cheaper than what private enterprises can do it at? Is not that it in a nut-shell?—A. Yes.

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By Mr. Irvine:

Q. Would you think that \$45,000,000 annually was a little more than cost for the credit issues of Alberta?—A. It would seem so. It would also seem that the amount that is now distributed on invested stock in banks, also the amounts that have been voted into reserve funds in the banks more than equal the paid-up capital, also the amount substantially accumulated in bank premises and the like of that, would rather indicate an excessive interest rate.

By the Chairman:

Q. You believe interest is simply a charge made for the use of money?—A. Yes.

Q. Well now, that charge will be regulated by demand and supply, would it not?—A. No, not unless the person who wishes to use it—.

Q. Here is a case. Suppose there were six farmers side by side and they each grow 1,000 bushels of wheat. One man kept all he wanted for himself. Supposing another was to buy some alcoholic stimulants. That would be a pure waste. The second man bought a car, more than he actually required. His whole thousand bushels were gone. The other fellow did some improvident thing, let us say, and so on, until only the sixth man, had any wheat out of his own assets. They come to look around for wheat for the next spring, and see that one man has kept enough for his own wants and keeps some for seeding. He is going to charge a profit for that?—A. Yes.

Q. And nearly all he could get?—A. Yes.

Q. After all, it is not money, just about the same thing we have been calling money?

By Mr. Irvine:

Q. I must ask one more question now.

The CHAIRMAN: I have given you every liberty to-day.

Mr. IRVINE: You have conjured up an imaginary case.

The CHAIRMAN: My case is not imaginary. It happens every day and every year.

By Mr. Irvine:

Q. If the banks deflate, if they make credit less, will not the price of interest go up, because the demand for credit will be greater? That is not an imaginary thing. That is a fact. Therefore it would be to the interest of the banks, to get higher interest, to deflate credit?—A. Yes. I would like to answer Mr. Maclean.

The CHAIRMAN: I do not say that all these five farmers, even the six of them, should not sell their wheat, but I say they dissipated the proceeds they got for their wheat, while the sixth man saved something, and he has the money to go and buy his seed wheat, and the other neighbours will ask him for money to go and buy their seed wheat. That is the same thing?—A. If their wheat is still in existence, it is there without the increased price in wheat. If the wheat had not been consumed, the volume being the same, according to the law of supply and demand, the wheat was there, but if that wheat had gone, then there is only a small amount left, but the fellow with the small amount can charge what he likes, because he is in a position to take advantage of necessity.

Q. Is not the money of the country a consumable process? You have admitted twenty times to-day and several times in the past days, that money is merely property, so that money is a consumable thing in the sense of the question I put you?—A. Money is the representative. Official counters, that is all.

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Q. You use money in the way it suits your particular argument, whatever it happens to be.

Mr. IRVINE: I think that is what you are doing now, Mr. Chairman.

By Mr Good:

Q. I would like to hear Mr. Bevington come to the question you raised, the point as to the situation between the one man and the five men in the spring.

The CHAIRMAN: Yes, because all money, if it is in the bank or anywhere else, all the wealth that is anywhere, represents savings by somebody living or somebody dead. It is on savings that all credits are established; and the man who produces and saves has a right to do something with it. Whether that sixth farmer had his savings in wheat or in money, would not matter, because if he had kept some wheat, his neighbours would want to go and buy some wheat. If they dissipated the money they got they would have to go to him to get it.

Mr. GOOD: May I ask you a question to clarify the point? Perhaps I am interrupting Mr. Bevington.

An Hon. MEMBER: Did you put this question to be answered?

The CHAIRMAN: No. I put it to the witness and he answered it.

Mr. GOOD: Well, go ahead then.

The WITNESS: I was saying that the wheat had disappeared, that is, five-sixths of it, leaving only one-sixth available for the use of these people. Then they must come back to the one who had the product and deal with him on his terms. Now, that is exactly the position, where you have the control of credit in the hands of the banker. He has drawn it in, and it is up to him whether he will allow it out again under any conditions whatever, and the person who requires to use it, has no alternative institution that he can go to get it at what it is worth, because there is no such institution provided for that purpose.

By the Chairman:

Q. The bank is only dealing with what other people save?—A. It does not need to let anybody else have it.

Q. It has to be mobilized by somebody, and the people who mobilize it have to control it.—A. My position is, if you require an economic system as an economic necessity, that system must be established in such a way that the interests of the people can be met and not given up to any few people to try and monopolize, take advantage of the people's necessity through that monopoly.

By Mr. Good:

Q. The answer is all right so far as it goes, but it does not deal with the point I had in mind altogether. The point I had in mind was that the one man under the circumstances as stated by you, would have the other five at his mercy?—A. Unless the five could get the wheat somewhere else.

Q. They might be forced to pay an exorbitant price for it. Now the point I want to suggest to Mr. Bevington to answer is this, as to whether or not the system that he would provide, would be equivalent to enabling those five men, foolish as they had been, to prevent a further disaster, by going out and getting a supply of wheat under credit in this particular case from somewhere else at a cheaper price—that is to say, by going to the community to get their credit and get a loan say, to apply on the next year's crop. They could get it more cheaply than if they were dependent on the one man who had them

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all in his power?—A. That would be decentralize control. That is the object I wish to accomplish. There are two objects I wish to accomplish in this proposed plan. I am willing to adopt any other plan, I do not care what it is, that will accomplish those two things. In my own opinion there are only two evils in our monetary system, and those are centralized control and excessive interest.

The CHAIRMAN: My question would be the same as if there were 50 other farmers in that community who had saved wheat. These five people would have to go around and get it somewhere.

Mr. GOOD: If there were any real option, the one man could not hold up the five. He could not charge 100 per cent interest, or something like that, because the others would be prepared to offer the service for a less charge.

The WITNESS: Holding up of the extension of credit, but will you understand that it reduced prices to 50 per cent of what they were otherwise. Really it is holding a man up 100 per cent in his loan. That is the effect it has.

The CHAIRMAN: Does any other gentleman wish to ask a question? Miss McPhail, do you want to ask any questions?

Miss MCPHAIL: Should a Chairman be partial or should he be impartial?

The CHAIRMAN: That will not apply to me, because I have been very impartial. I am not partial to the views expressed by the Witness. I do not believe in that, but I hope you will not consider I have been partial, in any of the proceedings before this Committee.

Mr. GOOD: Before we adjourn, in connection with to-morrow's proceedings, you stated this morning that Sir Frederick Williams-Taylor would be available for questions in regard to any matter we would like to enquire about. Now it seems to me that it would be just as well not to get tangled up in the procedure to-morrow, and allow a certain amount of time on this resolution of Mr. Irvine's, the matter we have been discussing, and a certain amount of time for those who are particularly interested in the Bank Act. That is, if the time is limited. If he is available only for so many hours, let us divide the time so that those who are interested in one phase, will not be ousted by those interested by another phase of the question.

The CHAIRMAN: We will do our best to do that.

The Committee adjourned until April 19th, 1923, at 11 o'clock a.m.

THURSDAY, 19th April, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m. Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, will you come to order, please.

When we closed yesterday, Mr. Irvine asked if he could recall Mr. Bevington some time later, to ask him some more questions, and I replied in the affirmative. I wish to have it understood that I meant that if that were done, he could only ask him a few questions in regard to matters that were overlooked. It would never do to recall Mr. Bevington, or in fact any other witness, and go over the whole ground again. I just wish to make that explanation. Any motions?

Mr. W. F. MACLEAN: Mr. Chairman, I would like to ask if you have copies yet of the recent Act passed at Washington in regard to banking?

The CHAIRMAN: No, we have not Mr. Maclean. The Bill that you left with me was the Bill as introduced.

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Mr. W. F. MACLEAN: And passed.

The CHAIRMAN: No, there was a Bill introduced in the American Congress which passed. We have sent for copies of the Bill as passed.

Mr. W. F. MACLEAN: I have a copy of that. Meantime would you let me put on the record and save my reading it, a very short summary of the Act. It will not take a quarter of a column.

The CHAIRMAN: I will put it in the record as read.

Hon. Mr. FIELDING: It is your own summary, Mr. Maclean?

Mr. MACLEAN (York): No, it is from the Winnipeg Free Press. An editorial from the issue of April 2nd, 1923, of the Winnipeg Free Press, entitled "Hoover on Personal Farm Credits."

"Secretary Hoover, before the United States Senate Committee on Banking and Currency, disclaimed any authority as an expert on banking and finance. His views, however, are reflected in a striking way by the rural credits legislation recently enacted at Washington. That such legislation was necessary he did not doubt. There was he said a "barren credit area" between the commercial credits extended by the Federal Reserve Banking System and the long time loans on farm mortgages provided by the farm loan system. There was real need for more credits in this area, but these credits should not be expected from the commercial banks which, of necessity, had to loan out their deposits on short time paper.

In Mr. Hoover's opinion, the money required for agricultural credits should be drawn from investment capital. The man who deposits his money in a bank does not regard that deposit as an investment. He puts the money there temporarily for safe keeping, expecting at any time to be able to draw it out, and expecting no return upon the same. Or he makes a savings deposit, not because he is satisfied with a three per cent return, but because he is unable to decide at the moment upon some more permanent investment. When he comes to make what he considers an "investment" he demands a higher rate of interest and is content to wait a definite time for the return of his principal. From the money he invests in three year debentures the personal credits departments of the farm loan banks will rediscount farm paper, and they can safely extend much longer credits than the commercial banks loaning deposits on demand. It is not unlike the plan of the loan companies except that the loans and debentures run for a much shorter period.

"The government advances the initial capital, but it will probably all be repaid. In the case of the land banks which sell long time debentures and make long time loans on real estate, the capital originally subscribed by the government is passing rapidly into the hands of the farmers' Associations. Nor is there any reason to believe that these three-year debentures issued by the personal credits departments of the land banks will not command as ready a market as the long-time debentures issued by the land banks proper against the mortgage they have acquired. If some persons and some institutions prefer long-time bonds, others prefer bonds of shorter maturity. The government bank acts as an intermediary collecting one per cent more from the borrowing farmers and farmers' organizations than it pays to the holders of its debentures. The farmer does not borrow directly from the personal credits department of the land bank. His note is first discounted and indorsed by some bank, credit association or farmers's co-operative association. Thus, the debenture holders are secured by the re-discounted paper against which

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they are issued, plus the indorsement of a local bank or a farmers co-operative association, plus the initial capital contributed by the Government.

"In the opinion of Mr. Hoover, the debentures will not only appeal to small investors, but will be eagerly purchased by banks, insurance companies, and other financial institutions. They will have the advantage of being exempt from national, State, or municipal taxation."

The CHAIRMAN: I would like to read a letter from the British Agents Association of Canada. It is dated Montreal, 17th April, 1923, addressed to me as Chairman of this Committee, and is headed "Re Sections 86 to 89 of the Bank Act."

SIR,—We had the pleasure of appearing before your Committee on the 13th April, and submitted certain proposals which were as follows:—

We would record our appreciation of the recognition of the principle of the registration of hypothecations under section 88. We would, however, urge that the necessity of registration be also applied to all hypothecations of goods imported under Sections 86 and 87. We would also urge that the registration of all hypothecations of accounts receivable and book debts be compulsory. That the registration of all hypothecations to Trust Companies, Corporations, firms or individuals be compulsory. If there be no registration the hypothecation shall be null and void. That each hypothecation shall be individually registered, stating the amount and the date. That all registrations shall be published in the Canada Gazette within one week from the date thereof. That all liens and hypothecations in force previous to August 1st, 1923, shall be registered. That no goods shall be available for hypothecation unless they have been fully paid for in cash to the vendor. Unless such hypothecation shall be for the specific purpose of applying the resultant funds to the payment of the goods in question. In case of bankruptcy all hypothecations in the immediately preceding three months shall be null and void."

That is signed: "For British Agents Association of Canada, G. E. Blackburn, President."

As Sir Frederick Williams-Taylor is to appear before us this morning, it may be of some advantage to him to have this read, and I suppose the Committee will desire to hear him on these particular sections.

Hon. Mr. FIELDING: Why does not the gentleman come here and give his evidence? Why does he send a mere letter?

The CHAIRMAN: I do not know. I am just giving the letter as it is. Now we have appearing before us this morning Sir Frederick Williams-Taylor, General Manager of the Bank of Montreal, and President of the Canadian Bankers' Association. He will wish, I presume, to make first a general statement, after which he will be available to members of the Committee to be questioned upon Bill Number 83, the Bank Act. When we have finished with that, I suppose he will be available to members of the Committee upon matters generally.

Mr. GOOD: Mr. Chairman, I mentioned the question yesterday of our procedure this morning in that connection.

The CHAIRMAN: I cannot say yes or no to your request, Mr. Good. I will do the best I can. Sir Frederick Williams-Taylor is here on Bill No. 83 first; but he will endeavour to give you an opportunity to question him upon the resolution.

Mr. GOOD: Mr. Chairman, if you will pardon me for speaking?

The CHAIRMAN: Certainly.

Mr. GOOD: This is a matter of some importance and I do not think it ought to be lightly passed over. I drew the attention of the Committee yesterday to the advisability of having the time divided between the question which we have been discussing for some time, and Bill No. 83. I understood you to concur, and the Committee to concur, in that suggestion. There was no formal resolution passed, but in my judgment it is highly desirable to avoid friction and hard feeling, that there should be a division of the time. There are some who are interested particularly in the Bank Act and in some clauses of the Bank Act. There are some others here who are interested in certain other phases of this question. Now if one particular aspect of the situation is to be considered first, the whole day may be consumed, and nobody who is interested in any other aspect of the situation is permitted to question the witness, then I think that will not be very satisfactory. I submit, Mr. Chairman, that we ought to arrive at some decision in that respect first.

The CHAIRMAN: Mr. Good, you will remember the reply I made to you yesterday, namely, that I would do the best I possibly could to accord ample time to everybody to question the witness. It is impossible for me, or for this Committee, to divide the time. We will see that all members of the Committee have an opportunity of asking Sir Frederick Williams-Taylor questions upon the resolution as well as the Bill.

Mr. GOOD: Mr. Chairman, I have no objection provided we are permitted to question Sir Frederick Williams-Taylor on any question that may be pertinent to our whole inquiry.

The CHAIRMAN: You mean the resolution?

Mr. GOOD: And not confine our questions to the specific clauses of the Bank Act that may be under consideration.

The CHAIRMAN: Oh, no, I do not think anybody could make a definite response to your request at the moment, but we will do the best we can.

SIR FREDERICK WILLIAMS-TAYLOR, called:

Mr. Chairman, may I venture to suggest that I be permitted to read my remarks uninterruptedly, and that if questions are asked they shall be asked subsequently?

The CHAIRMAN: Yes.

Mr. Chairman, Mr. Fielding, and Gentlemen of the Committee: On behalf of the Canadian Bankers' Association, I beg to thank the members of the Committee for their very courteous invitation to myself as President, and to other members of the Association, to attend and express our views upon the matters engaging the attention of the Committee in its consideration of the question of the function and control of financial credits under the Resolution of Mr. Irvine, and the provision of the Bill introduced by the Honourable the Minister of Finance extending for a further period of ten years the charters of Canadian Banks.

Any special information we may possess upon these subjects which members of the Committee may require we shall be glad to furnish to the extent of our ability. We assure the Committee of our earnest desire to aid its members in every way possible in reaching wise conclusions upon legislation so vital to the economic welfare of the community.

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It has been stated before the Committee that our existing banking system is not meeting or able to meet the credit requirements of the country for the following alleged reasons appearing on page 42 of Report Number 2 of the proceedings of the Committee.

(1.) "Our banking system has been developed along lines calculated to meet the requirements of merchants and dealers rather than along lines necessary to meet the requirements of production and consumption."

(2.) "The right of issue of credit instruments (bank-notes) granted to banks is ordinarily limited to the narrow base of their capital assets. They are, therefore, unable to meet the requirements of a continually expanding business without correspondingly increasing their capital or running the risk of having too small a proportion of their resources in liquid form."

We respectfully take issue with these allegations and state that the Canadian banking system which has developed over a period of more than fifty years is well adapted to meet all the banking requirements of production and consumption, as well as those of the mercantile community, and that under its operation the savings of the people of the Dominion are encouraged, mobilized, and made available for the agricultural, commercial, industrial, and financial needs of the community. We say further that the circulating medium of Canada, consisting of banknotes and Dominion notes issued under conditions prescribed by legislation, is entirely adequate to meet the needs of the community in this regard, and it constitutes a currency second to none in existence in its essential soundness, and its flexibility to meet changing economic conditions consistently with the principles of sound finance.

Under the provisions of the Bank Act, and the Finance Act of 1914, the Chartered banks of Canada were able to meet all the unprecedented banking demands of the period of the war with its vastly increased volume of production, distribution, and international trade, and, in addition, to finance, pending the issue of public loans, the exceedingly large temporary borrowings in Canada of the Dominion and Imperial Governments. In the trying period of deflation following the war down to the present time, the Canadian banking system has proven itself capable of meeting all demands which could legitimately be made upon it.

We have carefully considered the proposal which has been put forward before the Committee as a remedy for alleged defects of the Canadian Banking system and which is reported in the record of proceedings as follows:—

"The establishment of an elastic Federal Loan Department with Provincial Government agencies to deal via local organizations, directly with the people: this department functioning as a holder of securities against which advances of Dominion notes have been made."

The establishment of such local organizations, to be provided with funds for the purpose of their loaning operations by means of advances by the Dominion Government in the form of Dominion notes, secured not by gold but by securities pledged by these organizations would, in our view, only result in serious inflation and depreciation of Dominion and bank note issues with their attendant grave consequences in the form of rising costs of commodities, speculation, and general demoralization of business within Canada, with the Canadian dollar at a heavy discount in the United States and elsewhere abroad. All nations that participated in the war and that are able to do so, including Can-

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ada, are now endeavouring to restore as rapidly as possible their currencies to the gold basis. Any policy which would promote further inflation of our currency,—already in considerable degree inflated by the exigencies of war-time finance, can only serve to postpone the day when Canadian currency issues will be at a parity with gold as before the war.

The bankers who have been invited to appear before the Committee will be glad I am sure, if requested, to elaborate this general statement as to the adequacy of the Canadian banking system to meet the banking requirements of all classes of the community, and as to the soundness of the policy of issuing Dominion notes only against gold or to banks under the provisions of the Finance Act against the pledge of quickly realizable securities to enable them to meet the seasonal demands upon them connected with the marketing of our wheat and other agricultural production.

With respect to the so-called intermediate credit banks, National Agricultural Credit Corporations and Federal Land Banks of the United States, it is to be pointed out that they are essentially different in character from the National and State Banks of the United States, and the Canadian Chartered banks. They provide funds for their loaning operations by the issue of bonds and debentures, which are made tax-free but are not guaranteed by the Federal Government, and not through deposits from the general public—repayable on demand or on short notice. These institutions are not engaged in the business of banking, in the ordinarily accepted sense of the term.

We fully appreciate the extremely trying conditions through which the farming community has been passing. We believe that these conditions are not due to inadequacy of Canadian banking facilities but to the rapid deflation which has taken place in the prices of agricultural produce compared with other commodities, deflation over which the banks certainly had no control. If the creation of additional organizations throughout Canada for the purpose of making loans upon long term securities should be deemed advisable such organizations should, in our view, be financed not through advances in Dominion notes by the Dominion government but by the issue and sale of their own bonds and debentures as in the case of similar organizations in the United States.

The Committee has also heard the representatives of English textile houses who have made statements as to what they regard as unfair in the operation of Section 88.

Two things may be noted at the outset. When asked a question as to whether Section 88 might not with advantage be struck out of the Act, the gentleman from Bradford admitted that in his opinion in a new country such as Canada, with great natural undeveloped resources and limited available capital, Section 88 served a useful purpose.

In the second place the statement was made by the same gentleman that the new provisions contained in Section 88A with regard to registrations substantially met the objection of the English vendors of goods in this country.

But coupled with this he put forward two suggestions which must be considered;

(a) That every advance of money and taking of security under the section should be registered.

(b) That there should be the like registration of particulars of advances made against bills of lading and warehouse receipts, or that no title under these documents could be obtained until the goods were paid for.

With regard to the former it need only be said that the proposal would be impracticable.

The new registration provision gives notice to the vendor that his purchaser is given security under Section 88. If the vendor desires to know more

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he can require the production by his customer of a statement from the banker whose lien is registered of the amount secured under the section. That is more exact and definite information than could be obtained by the proposal.

As to the second proposal what is asked is to rob of its character as a negotiable security what has in all commercial countries for the past 200 years been regarded as giving absolute and unqualified title. The English vendor of goods in this country could sell goods on credit, with little regard to the character or solvency of his purchaser, and be in a favoured position, while the Canadian shipper to Great Britain or the United States, who also chose to give credit to his customer, would as against English or American banking institutions with which the documents of title might be pledged, be unprotected.

With respect to the Bill, of the Honourable the Minister of Finance, extending the charters of the banks, I should like, with the permission of the Committee, to draw attention to certain features which seem to us to call for comment.

Publication of Appropriation Accounts, Contingent Reserves

Provision is made for the publication of these items in the Annual Statement, Section 54, 2-m and n, and in the monthly Return items 16 and 17 of liabilities schedule G.

Perhaps you will permit me, before discussing the merits of this proposition, to outline briefly the nature and function of these accounts according to what we believe to be the general practice in well conducted banks.

The branches are required to furnish Head Office with special reports upon doubtful advances. These statements are carefully examined, definitely ascertained losses are written off, and specific appropriations are made in the case of each debt where there seems reason to fear a total or a partial loss. The aggregate of these specific appropriations makes the balance standing in "Appropriation Account".

But something more is necessary because every experienced banker knows that \$100,000,000 in sundry loans, considered quite good, cannot be realized to produce \$100,000,000. Experience has proved that unseen bad debts are always present, and that there will always be a percentage of loss varying according to times and circumstances. As a protection against this inevitable shrinkage in value, which it is impossible to measure in advance, it is customary and imperative to set up, in addition to the specific appropriations, a fund not earmarked for any particular item, and which may be called "Contingent Reserve".

In preparing the balance sheet and the Government Statement therefore, it would obviously be over-valuation to include the outstanding loans at face value. They must be reduced to what Head Office considers the realizable value and they are accordingly so reduced by the amounts of the relative balances carried in "Contingent Reserve" and "Appropriation Account".

These accounts necessarily fluctuate with the times, increasing in periods of prosperity and decreasing when business is bad, and the fluctuations in the best managed institutions are of necessity sometimes large. In a matter such as the valuation of "Doubtful Debts" there will inevitably be diversity of opinion amongst different bank executives, and since the accounts of the various banks cannot therefore conform to a common standard, it would be impossible to know what conclusions to draw from published figures of "Appropriation Accounts" and "Contingent Reserves". Large balances in these accounts might be criticized on the one hand as reflecting anticipated heavy losses, the result of bad banking, or on the other hand as reflecting a policy of excessive

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prudence. Similarly small balances might be considered either as a reflection of sound banking and small losses, or as showing only a narrow margin of safety. No one could tell which criticism might be right and uniformed comment would more likely than not be misleading and possibly dangerous to the shareholders of perfectly solvent and well-managed banks.

It is not the practice in Great Britain or the United States, or any country so far as we know, to publish the balances standing in these accounts. We consider, therefore, that it is in the best interests of the public to continue the present practice which allows bankers to show their advances at what they believe to be their realizable value.

We submit for your consideration that the proposed Assets side of the Bank's Annual Statement and the Government Statement be modified, the two items in question being omitted from both, and that k, l, m and n of the Annual Statement be replaced by the following, with corresponding alterations in the Government Statements:

(k) Call and short not exceeding 30 days loans in Canada on bonds, debentures, stock and other securities of a sufficient marketable value to cover.

(l) Call and short not exceeding 30 days loans elsewhere than in Canada on bonds, debentures, stocks and other securities of a sufficient marketable value to cover.

(m) Other loans and discounts in Canada less rebate of interest after making full provision for all bad and doubtful debts.

(n) Other loans and discounts elsewhere than in Canada less rebate of interest after making full provision for all bad and doubtful debts.

In addition the item—

(q) f "Overdue Debts" should be eliminated, for reasons to which I shall refer later on.

So far as we know the changes we propose provide for fuller detailed information than is furnished by banks in other countries. They also give better assurance of the sufficiency of the provision for possible losses than is given by banks of any other country, or then is required by the bill as presented.

Proposals regarding changes in Bank Auditors and the prohibiting, while they act as Bank Auditors of their employment in any other capacity by or at the instance of the Bank, Section 56, Sub-sections 6 and 16.

The same auditor following the workings of accounts from year to year can determine their value much more accurately than a new auditor. To limit the services of an auditor to three years would therefore deprive the shareholders of his service at the time when he is most competent to safeguard their interests. The new provision that there be in future two auditors from different firms, removes the reason for the three year limitation. There is no danger of two independent auditors being unduly influenced by the management.

Sub-section 16 requires that a bank auditor shall not undertake other employment for or at the instance of the bank employing him. Quite frequently, the Bank's auditor is employed to investigate the affairs of a customer. This collateral service is not only a great value to the bank, but it avoids the needless disclosure of the customer's affairs to a second firm of auditors.

If bank auditors and their firms cannot be consulted or employed in any other connection for or at the instance of the bank they will find it more profitable to resign from the bank audit and retain the practice which the bank can direct to them, the bank's shareholders thus being deprived of the services of the most capable and experienced men in the profession.

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We would therefore recommend that bank auditors be permitted to serve so long as they retain the confidence of the shareholders.

Definition of "Current Loans", Section 113, Sub-section 5

Arbitrary tests are set up in the sub-section as to what is a "current loan". If the interest is unpaid for a period of 12 months, the loan is to be taken out of the current loan column; if the bank has taken possession of the property given as collateral, the loan ceases to be current; if the bank begins an action to recover the amount, there is a like result, and two other tests are likewise suggested.

Whether loans are "current" or "overdue" according to some technical test is unimportant compared with the question whether they are amply secured and reasonably liquid. There might be a large surplus in the borrower's security but still he might be unable to pay interest in cash for a year or more. In the case of a Western farmer in good standing, partial or total crop failure would mean that the borrower could not pay interest for 12 months. He would want a renewal of his loan and an additional loan to produce a crop the following year. If the value of his land and other assets justified the renewal and the increased loan, there should be no sound reason why both should be classed as current. Banks variously estimate, however, that under the proposed regulations 50 per cent and upwards of Western farm loans would have to be classed as "overdue" within the meaning of the Act in those sections of the three prairie provinces where there have in recent years been adverse crop conditions. There are instances, too, of loans against lumber for large sums, where the lumber, on a low valuation, is worth twice as much as the loan and upon which no interest, owing to market conditions, has been paid for a year.

In addition, although the security held for a loan might be entirely adequate, the bank might find it necessary to take possession. It is quite possible, too, that a suit might have to be entered for a particular debt, although the loan was amply secured, in order that the bank might maintain its position against other claimants.

A strict interpretation of the suggested clauses would compel the transfer to the overdue column of a great number of perfectly safe and legitimate loans. The resulting publication and newspaper comment might alarm depositors and cast unwarranted discredit upon the bank both in Canada and abroad. The adoption of the clauses would therefore tend to prevent Banks which would be disposed to do so, from being lenient towards borrowers quite able to pay if given time.

We submit for your consideration that the classification of loans and discounts as "Current" or "Overdue" is in any case of little value and that arbitrary tests for such classification, which take no account of values, will do harm. For this reason, we have suggested earlier in these remarks that the heading "Overdue Debts" be omitted from the balance sheets and Government statements and that the banks ordinary advances to the public be shown under one heading at what is believed to be their realizable value after making full provision for all bad and doubtful debts.

We may add here that it is not the practice of either British or American banks to show separately the balances of Overdue Debts, Appropriation Accounts and Contingent Reserves.

Responsibilities and Penalties affecting the President and General Manager in connection with their signatures to the Government, statement.

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Section 113, subsection 1, provides that "monthly returns shall be deemed to have been prepared, approved and concurred in by the persons severally who have signed the same."

Subsection 4, of the same Section provides that "every person who has signed any such return shall be deemed to have ascertained the true financial position of the bank."

Section 153, subsection 3, the penalty clause, provides that "any person who signs, approves or concurs in the return, or any person to whom knowledge respecting the true financial position of the bank is by law at the date of the return imputed" shall be guilty of an indictable offence if the return does not set forth the true financial position of the bank.

The utmost diligence may have been used by a bank's President and General Manager and the highest good faith may have been exercised, but if in fact anything contained in the return is not correct, each of these officers is made guilty of a crime. And the penalty attaches although owing to the number and distance of branches and the multiplicity and variety of transactions in each branch, it is a physical impossibility for a President, Vice-President, Director, or General Manager to know that every item entering into the return is in fact correctly represented therein.

The full obligation resting upon the President, vice-President, a director or General Manager ought to be met, if he has been diligent in the performance of his duties and if he has not knowingly misled or deceived by his signature. Yet, under the measure as it now stands, if any sum is counted as an asset at the date for which the return is made, which was in fact lost at the time, though the President and General Manager had no knowledge of the loss and were in no way negligent insofar as it was their duty to have knowledge of the particular transaction, each of them would be liable to indictment. Incorrect figures in a branch return, which have been incorporated in the monthly statement, will as already stated, put the President and General Manager in jeopardy, although there are full penalties under the Act that can be visited upon the officers of the branch for negligent preparation or wilful mis-statement.

The real safeguard of the interests of the public as depositors and as note-holders, and of the shareholders as proprietors must continue to be the capability and integrity of those charged with the executive administration of the Bank. No form of penalty can be devised to prevent losses if these qualifications be lacking.

May we therefore be permitted to emphasize this viewpoint. Too much should not be expected of legislation alone to safeguard against banking losses. However wise the legislation, it will still be essential that shareholders elect prudent directors, and that directors, in their turn, appoint careful and competent executive officers, possessed of good judgment, to conduct the bank's business, and to keep them informed continuously of its important operations and the state of its affairs. In that way only can the maximum of safety be assured. To enact therefore a form of legislation which may prevent able and conscious men from undertaking duties which are by Statute made impossible of fulfilment, is not, it is respectfully submitted, sound policy or in the general interest

Controlled Companies, Section 113, Subsection 6

The banks have no objection to a full disclosure of every fact connected with these companies. It is, however, regarded as impracticable to incorporate the affairs of such companies in the monthly returns. If attempted the results would, in many instances, be misleading. A bank may own 51 per cent of the stock of a corporation which may have extensive bond and other liabilities. In

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such a case under this subsection the assets and liabilities of the corporation are deemed to be assets and liabilities of the bank and the 49 per cent of the stock not owned by the bank is to be added to the bank's liabilities.

It is suggested, therefore, in accordance with the practice of the banks in Great Britain, that instead of subsection 6, provision be made for a full statement to the Annual Meeting of the Bank, over the signature of the bank's auditors, of the affairs of such companies. In addition to the statement furnished by the English banks there might be submitted to the bank's shareholders a certified statement of the bank's liabilities in connection with the Company, as well as the value at which the bank's interest in the Company is carried in the Annual Statement.

By Mr. Irvine:

Q. I would like to ask the Witness if the Contingent Reserve was what was mentioned in the Merchants Bank Case as a Credit Reserve; was that what you had reference to?—A. I cannot hear you very well as I am a bit deaf.

Q. Is the Contingent Reserve which you mentioned the same thing as the Credit Reserve as mentioned in the Merchants Bank Case?—A. That was a Contingent Reserve as mentioned in the Merchants Bank Case?—A. That was a Contingent Reserve; that is what I am referring to when I am speaking of a Contingent Reserve.

Q. Is there any limit to that reserve in the bank; do they set any limit in proportion to their assets?—A. The limit is within the discretion of the bank in the interests of sound banking.

Mr. IRVINE: I have a number of questions to ask, would it be all right for me to continue asking before anybody else commences?

The CHAIRMAN: We will let you finish; be as brief as you can.

By Mr. Irvine:

Q. The witness has made a statement that currency is sound, that the banking system is good, that our gold medium is quite sufficient, these may not be his precise words but there is the meaning. I would like him to elaborate on these three points. First what is sound currency? How does he know there is sufficient of it in Canada at the present time? What constitutes a good banking system?—A. Will you put your question again, please; you will remember I am a bit deaf.

Q. What do you mean by sound currency?—A. I mean by sound currency that we have one of the very best currencies in the wide world, a currency based on the assets of all banks; each bank's circulation is guaranteed by all banks and it is inconceivable that the holder of these notes can have a loss; that is what I mean.

Q. If the currency is based on the assets of the bank what is it redeemable in?—A. In ordinary times the currency of the bank is redeemable in gold. This was suspended under the Finance Act in 1914 and will doubtless be resumed again when we get again on a gold basis.

Q. Do I understand it is not on a sound basis now?—A. I did not say; I said we would return to a gold basis.

Q. What is the use of returning to a gold basis if it is a sound basis now and not a gold basis?—A. We are on a perfectly good basis but it is not as perfect a basis as the ordinary basis, the basis upon which the affairs of banks were administered and conducted before the war. We were forced into the position as a result of the war which were sufficiently satisfactory to carry on the affairs of the country; it will be still more satisfactory when we again return to a gold basis.

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Q. Seeing that there is no gold basis then what is currency redeemable in at the present time?—A. What is the currency redeemable in?

Q. Yes.—A. The currency is redeemable into Dominion Government notes, if you wish them; would that be good enough for you?

Q. Is that stated in the Bank Act?—A. It is a question of fact whether it is in the Bank Act or not.

Q. Do you mean by that you are compelled to redeem it in Dominion notes, if so, how are you compelled?—A. Ask some other question and I will look this up.

Q. I understood you to say that our currency is based now on the assets of the bank, do I understand by that that we have no more currency to-day than we have bank assets?—A. No more currency to-day than we have bank assets, we have unlimited assets in comparison with our currency.

Q. What is the amount of the total assets of the Canadian banks?—A. \$2,576,000,000 against notes in circulation \$156,000,000; \$156,000,000 of a circulation against \$2,576,000,000 of currency.

Q. What are your liabilities; do you include your liability in that asset figure you have given?—A. You are asking now presumably about circulation. We have our liabilities also to our depositors. Do you want to know what they are; the figures are here and we have our report to our shareholders.

Q. I was trying to get at the total liability since we have got the total asset to see how they can be redeemed.

The CHAIRMAN: It is in the return which is published in our proceedings.

(See Exhibit No. 3, between pages 88 and 89.)

By Mr. Irvine:

Q. My next question is how does the witness know that we have sufficient currency now to take care of our business in Canada?—A. Common knowledge, Mr. Irvine, the length and breadth of the land.

Q. It is uncommon knowledge to me, may be to some others; there must be some economic reason for that statement; what is it?—A. If your collateral is good you will find there is no difficulty—you say it is not common knowledge, but if your collateral is good you can borrow from any bank in Canada without difficulty, and so can anyone else.

Q. That hardly meets the question; this is rather the question in my mind, what ratio should exist between the volume of currency in any country and the volume of business to be done; is there any ratio?—A. It is a question of supply and demand, and the demand for credit in Canada is less than the banks of Canada are able to take care of, substantially less, and the banks of Canada at the moment have large sums unemployed.

By the Chairman:

Q. Is there any shortage of currency in Canada to-day—A. None whatever.

By Mr. Irvine:

Q. My next question is, what does the witness mean by the gold basis? This question was discussed somewhat yesterday, and I would like to have the banker's view of it?—A. It is a very simple question to ask; I can give you a whole library on the subject if you like to have it.

Q. I have it?—A. Why do you want to bother me about it then?

Q. Because I understand the bankers know, I do not know, or else I would not be asking the question.

The CHAIRMAN: What is your question?

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Mr. IRVINE: What is the gold basis in the viewpoint of the banker, what constitutes the gold basis?

The CHAIRMAN: Do you mean what volume of gold is necessary to support the paper currency in the judgment of bankers? Is that it?

Mr. IRVINE: If that is what you mean by a gold basis, that is the question. The witness himself used the statement a few moments ago that we were returning to the gold basis, and the whole world was going back to the gold basis; they ought to know what they are going back to?

WITNESS: The country is on a gold basis when it can meet its obligations in gold. The United States is one of the few countries on that basis at the present time.

Q. What do you mean by meeting your obligations, paying all in gold, redeeming every note in circulation in gold?—A. In the last analysis a man can collect, any individual or corporation, institution, can collect its indebtedness in gold; that is a gold basis.

Q. Supposing that every man wanted to collect in gold, does it mean that every man has to be satisfied? Does it mean you must have enough gold in Canada to equal every note redeemable?—A. No.

Q. How much ought you to have?—A. The United States Federal Reserve Banks must have 40 per cent of total circulation in gold, and that is considered adequate. It may be more or it may be less, but 40 per cent is considered a sufficient safeguard in the United States where they have huge quantities of gold; in point of fact, they have enough gold in the United States to protect all their outstanding bank note circulation.

By Mr. W. F. Maclean:

Q. The United States Government has a store of gold of its own besides what is held by the banks?—A. Yes, and so has the Dominion Government.

The CHAIRMAN: The British banks would have much less than 40 per cent on the average?—A. It is very difficult to tell what the British banks have in gold; they do not show their gold in their returns; they show their balances in the Bank of England, which is the equivalent of gold, and they doubtless do have a certain amount of gold in addition to that not disclosed.

Q. Banking experience in this country and in all countries indicates that it is not necessary for banks to carry sufficient gold to redeem their total currency circulation at one time, that you need only to carry a certain percentage?—A. In the same way that it is not necessary or possible for a bank to carry in its vaults sufficient gold to meet all its calls upon it by its depositors; if that were done it would be quite impossible to conduct banking business. I remember when the Bank of Montreal started in 1817 some very wise shareholder said that he was a little afraid of banks, and he thought the proper way of safeguarding the interests of depositors was to have pigeon holes, and when a man made a deposit to put the deposit in his pigeon hole, and when he drew the money out to take it out of his pigeon hole; I don't know how they were going to earn any dividends on that. It would be impracticable for a bank to pay dividends and to keep a sufficient amount of gold or legal tenders in its vaults to meet all the demands, all its liabilities in the shape of deposits.

The CHAIRMAN: That is fairly clear, is it not, now, Mr. Irvine.

Mr. IRVINE: I think it is clear from the witness's point of view. It would follow then from what the witness has just said that the banks would not be able to meet the needs of business in Canada if it were not for public credits?—A. You are quite correct.

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Q. What is inflation? I notice the witness said that the proposal of Mr. Bevington would lead to inflation; what does he mean by inflation in that regard, and how does he say that Mr. Bevington's proposal would lead to inflation?—A. You at once have inflation when there is no gold basis. The currency in Germany and Russia is inflated because the limit of the circulation is merely the printing press ability to turn out notes. If you have a gold basis no such condition can arise.

Q. If we had a new system in Canada would we not have just as much gold under that system as we have now?—A. This proposed system of Mr. Bevington?

Q. Yes?—A. I think we would have chaos, not gold.

Q. No doubt you think that, but you are not showing us how it would come about. It is all very well to make a statement, but how would it produce chaos?—A. I cannot imagine such a condition; it is incomprehensible to me. I am only a practical banker, I am not a professor of economics.

Q. You would admit, would you not, that if Mr. Bevington's proposal was put into effect tomorrow we would have just as much gold in Canada tomorrow as we have to-day, and if it is a basis now, would not it be just as good a basis under that system?—A. I think we would promptly lose all the gold we have; that would be the first thing.

Q. How would we lose it?—A. At the present juncture you see there is more money going out of Canada than there is coming in; we have our imports and our exports, and our exports fortunately exceed our imports by a total of, is it, eighty-six millions for the past year, or thereabouts, so that up to that point there is more money coming into Canada than we are sending out, because we are selling eighty-six million dollars more than we are buying; but unfortunately we have obligations outside of Canada which carry a responsibility of some one hundred and eighty million dollars in interest in a year, and you must add that one hundred and eighty million dollars either to our imports or deduct it from our exports, and the result is there is one hundred million dollars odd more of money going out of the country than is coming in, and that gold would have to go out of the country under Mr. Bevington's proposed plan to meet our liabilities abroad; how else are you going to meet them?

Q. Is the situation which the witness has stated a new one? Have we not always been shipping in more than we ship out?—A. Yes, that is perfectly true since the development about thirty years, the great development of Canada started—I am not quite sure of the figures up to that date, although I remember perfectly well when the boom started in Canada about 1896.

Several Honourable MEMBERS: Hear, hear.

Mr. W. F. MACLEAN: Favourable trade balance.

WITNESS: You see our trade balance was very adverse for ten or twenty or twenty-five years, in fact nearly thirty years, twenty-five years anyway, but we made up the difference by borrowing abroad, our credit was so good that we borrowed freely in England and New York, and in the aggregate that indebtedness now amounts to some three billions of dollars, and it is the interest on that sum I was referring to a moment ago; by the borrowing of that sum of money we kept the exchanges right, and we balanced, by incurring indebtedness abroad we balanced our trade, it might be said.

By Mr. Irvine:

Q. When you borrowed abroad what was the basis of your borrowings?—A. The credit of the Dominion, if it was the Dominion Government that was borrowing, or the province or the municipality.

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The CHAIRMAN: Railways?—A. Yes.

By Mr. Irvine:

Q. Would not Mr. Bevington's proposal have precisely the same basis you have to borrow abroad? Supposing Mr. Bevington's proposal, which you said would lead to chaos because it would spoil the gold basis, suppose we put that into effect, would not you have precisely the same basis for borrowing abroad as you have now?—A. If we were to abandon the gold basis we would not be able to borrow at all abroad.

Q. I am not talking about abandoning anything; you have abandoned the gold basis, it is not in Canada now; would it be any different with any other proposal, that is my question?—A. Mr. Bevington's proposal as I understand it, literally translated means fiat money, and fiat money means the abandonment of the gold reserve and our credit would disappear abroad.

Q. I am not arguing for Mr. Bevington's proposal, that is his business?—A. I am glad to hear that.

Q. I am trying to get at your point of view; so far as fiat money is concerned, it is all fiat money, if you wish to understand it that way; but let us proceed with the question a little more; we have had an adverse trade balance for about thirty years?—A. Say twenty-five years.

Q. Which means if we had to make up that in gold we certainly have very little gold in Canada, while as a matter of fact our gold has increased; we have more gold in Canada to-day than we had thirty years ago; the witness says we have been able to maintain our gold through using our Canadian credit abroad; my question is could that not be used under any other proposal just as easily and as readily as under the present bank system?—A. I do not know exactly what you are driving at, but I say no at once.

Mr. IRVINE: I think I will allow somebody else to ask some questions.

The CHAIRMAN: Mr. Irvine's last question was answered a moment ago, of course, directly.

Mr. IRVINE: My last question has not been answered yet.

The CHAIRMAN: Yes, it was.

Mr. IRVINE: If satisfactory to you, all right, but not to me.

The CHAIRMAN: See if I can make that clear to everybody. Sir Frederick has explained that we have maintained gold reserves by reason of the fact that we have been able to equalize our incoming and outgoing trade by foreign borrowings, that we paid our foreign interest out of borrowings; that is clear; the next point he states is, that in his judgment if currency is not based upon gold you cannot borrow from anybody.

Mr. IRVINE: I will put it to you and see if you will answer it. You assert the gold basis is here; I am not proposing and Mr. Bevington is not proposing to take it away; my question is having the same gold basis under Mr. Bevington's proposal as under this proposal, what is to prevent us under his scheme from borrowing abroad to make up the balance of trade, if necessary?

The CHAIRMAN: We will argue that out at another time. If you wish to ask any further questions, do it. Mr. Spencer was attempting to ask a question.

By Mr. Spencer:

Q. I would like to ask the witness, if, as he says, that the depositors can be paid in gold, or if not gold in Dominion notes, would he explain how the

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banks would pay the depositors when the money on deposit is four times as large as the whole of the note issue?—A. Will you say that again, please?

Q. Suppose the depositors wanted to be paid, and as you stated to the committee a short time ago that they would be paid in gold, or if not in gold, in Dominion notes, how could you pay them off when the amount on deposit is four times as large, in round figures, as the entire note issue in the country?—A. No bank can pay all its obligations in a minute. The whole basis of banking is credit, and the banks maintain a certain reserve which in their opinion safeguards them against any possible demands that may be made upon them, but if all the depositors of a bank came in and asked for their money on the same day, there is no bank in Christendom could meet that demand.

The CHAIRMAN: There is a man down in Hants County, Nova Scotia, who for the last fifty years has been going to a bank in the town once a year and asking for his deposit, which is about \$3,000, and he takes it out, and they pay it to him, and he puts it right back when he is satisfied the money is there. It is not necessary to do that with everybody in Canada.

By Mr. Woodsworth:

Q. The whole amount that would be necessary to have in gold or securities would depend on the general confidence in the banks?—A. That is right, sure.

By Mr. Spencer:

Q. To follow that up, considering we have deposits to the amount of about four times the amount of the note issue, and loans to an equal amount, how are those deposits formed, what creates those deposits?—A. That is a very curious sort of a question; have you never deposited money in the bank? The deposit may be in the shape of cash, or it may be in the shape of cheques, or you can go in and if your credit is sufficiently good you could borrow \$100,000 on a promissory note with good collateral, and you would become indebted to us to that amount, and you can place the proceeds to your credit, and then you are a depositor, and there are just a couple of pieces of paper to be signed. A large portion of the deposits in the country are created in that way.

Q. Then the deposits and the loans are built up, I take it, on the credit of the country, is that correct?—A. The credit of the country—the credit of the banks and the confidence in the individuals. The bank has confidence in the individuals to whom it loans money, and the other set of people, the depositors have confidence in the banks and deposit their money therein.

Q. I will put it in another way; the client of a bank, say, wanted to borrow \$10,000; he would be given that advance if he could show good security to the bank?—A. Yes.

Q. After lodging the security he would be given the line of \$10,000, but he lodges the security and he pays interest on that loan, you admit that?—A. Yes.

Q. He pays interest on his own security?—A. But if they are Victory Bonds he is drawing from the Dominion Government interest which he puts in his own pocket.

Q. The whole security belonged to the client before he went to the bank?—A. Yes.

Q. If he had not gone the bank would not have loaned him anything, and they would not have loaned him anything if he had not lodged security, and if he lodges security you make the loan and he pays interest on it?—A. He pays interest on the loan, once.

Q. Because he has put security behind it?—A. Yes, because there is a basis of some sort for that credit.

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Q. Which he has produced or which your client has produced?—A. In your hypothetical case he has deposited securities with the bank.

Q. Therefore he pays interest on his own security?—A. No; I don't know whether you are trying to catch me, or whether you are very simple, but—

Q. I am simply stating a fact?—A. He is paying interest on the loan, and if the collateral is interest-bearing collateral, and the bank would not lend unless it was, then he is drawing the interest on the collateral.

Q. What I am trying to get at is this, that it is not on the assets of the bank that he is able to borrow, it is on his own assets?—A. That is the fact, that he possesses the collateral security that he can borrow on.

The CHAIRMAN: How can he borrow on the bank's assets?

Mr. SPENCER: The witness told us a few minutes ago that these large amounts were issued on the assets of the bank; I want to confirm the fact that they are issued on the assets of the individual customers?—A. You are speaking of what, the circulation?

Q. Yes, I will put it in another way. Do you admit when a loan is made it is entered as a loan in the books of the bank, it is debited to the customer on the one side of the ledger and it is credited to the customer on the other in the shape of a deposit?—A. Yes.

Q. A customer with collateral is the means of increasing both loans and deposits?—A. Yes.

Q. Therefore it is upon the assets of the country through the bank's clients that the credit of the country is carried on?—A. Do you think you know exactly yourself the question you are asking? I understand your question to be that if this hypothetical individual did not come in and borrow this \$10,000 and lodge this security, then the bank would not be in a position to issue its notes?

Q. Yes?—A. Which are based on the general asset of the bank.

Q. No?—A. Which are based on the general assets of the bank.

Q. The customer could not get an overdraft or a line of credit without he first lodges good security?—A. It is the security, the individual security which enables the banks to issue these notes, is that what you mean?

Q. Because the bank would not give credit otherwise?—A. I do not know what you are driving at; I am sorry.

Q. Just another question: we know in round figures that the loans and deposits at the banks are four times as large as the currency in the country—you admit that?—A. Yes.

Q. That pyramiding is possible because of the banks loaning against security and creating deposits?—A. You are forgetting, are you not, that the bank must of necessity have a capital which is provided by the shareholders, and the amount of circulation that a bank can issue is regulated by the amount of its capital.

Q. Note circulation, yes, but I was dealing with bank credits, issued through loans?—A. A bank with a capital of ten millions could issue ten millions of circulation whether your hypothetical individual came into the bank or not.

Q. Yes, but beyond that they cannot issue any?—A. The fact that he comes in does not enable the bank to issue any further amount of notes; the amount of notes that the bank can issue is limited by the capital of the banking institution, and is not increased one iota because your individual comes in and borrows \$10,000.

Q. But in regard to loans you can go beyond—

The CHAIRMAN: No.

A. The shareholders' capital, Mr. Spencer, is the limit.

The CHAIRMAN: The note issue is limited, you know that?

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Mr. SPENCER: Yes, I know that perfectly well. I am asking two other questions because of an article that appeared in a financial journal in Canada a short time ago in regard to the care of depositors' money; is depositors' money kept separate from any other money, that is savings money?—A. Obviously no.

Q. Is it invested specially?—A. Obviously no.

By Mr. Good:

Q. I hope I have better luck than the last two speakers. I understood the witness to state that in his opinion the present system was well adapted to the needs of the community, and that it could at the present time give any credit that was properly secured, that was needed by the people of Canada in the various industries. I want to refer to an incident that I mentioned a day or two ago and ask the witness if in his judgment the facts as I stated them are in accord with his statement this morning. The incident that I referred to was as follows; that an organization of farmers in business had a line of credit with the bank secured by personal notes of the shareholders; the organization got into difficulties through a number of causes, most of which were beyond their control; as soon as they got into difficulties the bank pressed for an immediate repayment of the loan, notwithstanding the admission on the part of the bank that the loan was fully secured; that pressure resulted in very serious embarrassment to the farmer shareholders at the time, because they themselves were suffering from this deflation or reduced prices for their particular produces; now, if, as the witness has stated, that at the present time the demand for credit is less than the banks are prepared to take care of, here was a demand for credit, an established line of credit, and the bank insisted upon the withdrawal of that line of credit, and seriously embarrassed the people who were engaged in that enterprise—I said the other day I did not want to judge the bank harshly in this particular case, because I was not sure but what they were forced through the general economic conditions to withdraw credit, but the statement which the witness has made this morning rather staggers me, because in this particular case there was obviously a need for continuance of the line of credit, and so far as I can see a very serious injury resulted to the community in that withdrawal of credit, and if it was not necessary why did the banks do it, if the banks had plenty of credit?

The CHAIRMAN: Put your question, please.

Mr. Good: I wish to have an explanation from the witness as to how he can reconcile the statement which he has made this morning with that particular fact and others of like nature that I could cite.

Sir FREDERICK WILLIAMS-TAYLOR: It must be obvious to you, Mr. Good, that it is quite impossible to answer your question specifically, without knowing all the attendant circumstances. It might be that this loan had been running for several years, and a sound banker will not lend money year after year, where it becomes a lock-up, and that might be a reason. It is conceivable that the bank was not certain as to the safety of the loan; and that as it was guaranteed, I understand, by the individuals, it would be in the interest of the bank, as a matter of safety, to make sure that they were going to get their money. Guarantees are tricky things. We know guarantors may die, or leave the country, and it is not an attractive form of security to a bank. Our experience has been that where there is a group of guarantors jointly and severally bound, if it becomes necessary to collect from them, it is a very difficult matter indeed. Now it is inconceivable to me that any bank in Canada would have gone to the length of breaking these worthy farmers who had formed this business organization, forcing them to sell their farms, and that sort of thing, in order to make good the guarantee. There must have been other circumstances connected with

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it, Mr. Good, with which you are not familiar, and I would respectfully question the complete accuracy of your statement as to being in possession of all the facts. I would like to take it up with the banker and I have no hesitation in making the statement now that there must have been attendant circumstances other than those that have been related to you.

Mr. Goob: Well, Mr. Chairman, I happen to be very intimately acquainted with all the circumstances, and I may inform Sir Frederick that I visited Montreal last summer in this connection, and had an interview with the Assistant General Manager of the Bank of Montreal. It was the Bank of Montreal that was concerned. And I cannot see how it is possible for any action of that sort to be justified if the bank has credit, if the security is good. I have never seen any explanation of that, but the credit was withdrawn, the people were embarrassed, and as far as I can see, for no purpose.

Sir FREDERICK WILLIAMS-TAYLOR: Excuse me for interrupting you, Mr. Good, but it is not merely a question of the safety of the loan. The Archbishop of the Cathedral down here might very properly in his opinion walk into a bank and ask for a loan of a few hundred thousand dollars on the security of the Cathedral. The bank would not lend him the money, because it is not good banking. There is no question whatever about the safety of the loan; the Cathedral is there and the Church is behind it, but it is not banking. And it is not good banking for any bank to lend money for an indefinite period of time. Although banks do lend money constantly for six months and a year and it may well drift into years before those loans are liquidated, but if a bank had all its loans in that shape what position would the bank be in? Because, mark you, we have depositors. In the case of the bank I represent we have \$27,250,000 of shareholders' money, and we have hundreds of millions of dollars of depositor's money, and the great bulk of those depositors can walk in at any time they like and ask for their money, and we must keep in a position sufficiently liquid in our opinion in order to meet those demands upon us.

Mr. Goob: Mr. Chairman, I can quite appreciate the force of Sir Frederick's answer, if the bank was being pressed; but if the statement which he has made, that they are in a splendid position now to take care of all demands of this sort, is true, I cannot quite reconcile the situation but I do not wish to press it any further, because we will be getting too far, and I want to ask this question:

Q. I understand that the chief objection, and indeed the only objection stated to the scheme as outlined by Mr. Bevington in recent days, is the expectation—the certainty, according to the witness' viewpoint—that such a scheme would lead to what we call inflation of prices, to a depreciated currency. Now I want to ask, providing assurance could be given that that would not happen, in his judgment would the chief objection to the scheme, fall, and would the scheme then be a fairly reasonable and proper scheme?—A. Mr. Good, the scheme is fundamentally wrong. It is fundamentally wrong. The premises are wrong. Because, if I understand Mr. Bevington's suggestion, it means literally, boiled down to simple language, fiat money and free credit.

Q. Well, Mr. Chairman, I certainly have as much abhorrence of anything that would lead to the continuous depression of the currency as anybody here, but frankly, I cannot see that that is an inevitable consequence of this scheme. I may have understood the project differently from the witness, but I would like to ask him, if this particular objection could be overcome, and if we were to consider whether or not the distribution of credit were at the discretion of the banks or at the discretion of local societies that surely does not necessarily involve the question of a depreciated currency. I would like to get the witness to give us

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some clear statement that if this particular difficulty could be overcome, in his judgment, that the scheme is at all events a debatable scheme.—A. What you mean, Mr. Good, is, that if Mr. Bevington's scheme was on a gold basis, then would it be a practicable scheme? Yes, I should say it would be, if it was on a gold basis. Any banking scheme that has a gold basis behind it is a good enough scheme. But if you mean that Mr. Bevington's proposal is one might be in the best interests of this country, replacing the present banking system, no.

Q. I understand then that the witness considers that this scheme is at all events worth some consideration, providing we could guarantee, as we have tried to do in the past, by having a certain amount of gold reserve, that the currency would not depreciate. Now will the witness admit that the amount of gold necessary is not any specific quantity, but will depend to a very large extent upon the amount of our international trade, upon the demand for gold and upon the general confidence which the people of the country repose in the paper currency?

The CHAIRMAN: He has admitted that already this morning in general terms.

Sir FREDERICK WILLIAMS-TAYLOR: If, Mr. Good, Mr. Bevington's scheme is on a gold basis, it would be a great deal better than on the basis that he has proposed, which is not a gold basis. How much gold should be kept, it is impossible to state arbitrarily, but a sufficiency of gold should be kept to maintain the credit of the institution and maintain the credit of the country.

By Mr. Good:

Q. Does the witness state then that the particular amount of gold that we need may vary from time to time according to circumstances?—A. Yes, but there is a strict limit beyond which you cannot go, that is in the amount of gold that should be held.

Q. One more question, Mr. Chairman, if I may? The witness spoke about sound money and sound finance. I want to ask then whether or not a currency, or a monetary system can be considered sound when there is a fluctuation in the general price level? Or, can be considered sound if there is fluctuation in the price level?

The CHAIRMAN: Or gold level? Or value of gold?

Mr. GOOD: That means the same thing, Mr. Chairman.

The CHAIRMAN: Your question is, if gold can be stabilized. I suppose you are after Irving Fisher's question?

Mr. HUGHES: He means general commodities.

The CHAIRMAN: It is the same thing.

Mr. GOOD: I do not know, Mr. Chairman, whether I can make my question any plainer.

The CHAIRMAN: No, he wants to know if a currency is sound if it permits the fluctuation of prices or the depreciation of gold.

Sir FREDERICK WILLIAMS-TAYLOR: The currency may be perfectly sound, Mr. Good, and yet the prices, in the country, of commodities, fluctuate. You must know that they do fluctuate here, and they fluctuate enormously in the United States. We consider that our currency is sound. The American currency is on the gold basis, and there are enormous rises and falls in the prices of commodities, but the currency is sound.

By Mr. Good:

Q. I fear, Mr. Chairman, that the witness has hardly understood my point. Perhaps I will make myself a little clearer if I distinguish between the gold basis and the gold standard. I presume we are on a gold basis if we can redeem our paper money in gold at will?—A. Yes.

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Q. But we have a gold standard when we have a certain weight of gold as a measure of value. Now, I want to ask this question, as to whether or not the witness considers that we have a sound monetary system when a certain weight of gold may purchase at one time, say, one bushel of wheat, at another time half a bushel of wheat, at another time something else; as to whether if the general price level goes up and down, we can conclude that we have a sound monetary system?—A. Yes, in my opinion, decidedly.

Mr. LADNER: Mr. Chairman, it was my intention to direct a few questions to this witness and other witnesses who will follow relative to a Federal Reserve Bank of Canada and for the information of the Committee and in order that we might have it in concrete form and avoid the wasting of as much time as possible, I have prepared this in concrete form which I will file as an exhibit and which the Committee can see afterwards, and it was my intention to ask a few questions of the witness on the essential of that proposal. I presume that procedure would be in order.

Mr. IRVINE: What are those questions?

Mr. LADNER: I might say, Mr. Chairman, that my questions do not relate to the scheme of Mr. Bevington or the theories that have been propounded here this morning.

The CHAIRMAN: You want to ask some questions?

Mr. LADNER: On a Federal Reserve Bank.

The CHAIRMAN: In Canada?

Mr. LADNER: In order to know intelligently what these questions relate to I have formulated the proposal in concrete form.

Mr. IRVINE: Do we understand Mr. Ladner is putting forward a proposal of his own?

Mr. LADNER: I am going to ask the witness questions. Perhaps I can put the question intelligently without submitting all the details of the proposal.

The CHAIRMAN: We all know what a Federal Reserve Bank would be, so put your questions.

By Mr. Ladner:

Q. Now, Sir Frederick, in your opinion, do you think that it would be to the advantage of the people, to the industrial, commercial and manufacturing community of Canada if we initiated some form of a Federal Reserve Bank, taking the machinery now operating in the Finance Department as the first step and creating a corporate body with seventeen chartered banks as members of the corporate body?

The CHAIRMAN: Providing the capital.

Mr. LADNER: The capital is a matter of arrangement. Perhaps we could estimate \$15,000,000 in gold.

The WITNESS: Mr. Ladner, there is no necessity for a Federal Reserve Bank in Canada in our opinion. It has been suggested before and the proposal apparently arose from the contemplation of the Federal Reserve Bank of the United States, the main reasons for the establishment of which were the absence in the country of means whereby: banks could obtain temporary assistance to meet seasonal or other special requirements. Second: The banking resources of the country could be transferred freely throughout the year to the part where the need for temporary advances might from time to time exist. Canada is under neither of these disabilities. Under the Finance Act of 1914 banks in need of temporary assistance can and do obtain from the Dominion Government that assistance, while our branch bank system insures an ample supply of

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currency at all times and places where it is needed for crop movement or other purposes. It has been suggested that the tendency of the Canadian banks is to borrow from the Government only with reluctance. Similar conditions prevail in the United States with respect to borrowing from the Federal Reserve Bank, and in England with respect to borrowing from the Bank of England. Is it not as it should be? The note issues of the National Bank in the United States, being based on Government bonds did not expand and contract according to the requirements of the country whereas we have as you know a very flexible currency under the Canadian Banking System. This expansion is covered entirely and absolutely by the needs of business and works automatically and perfectly. It is safe to say if the present Canadian system had for the past half century obtained in the United States the Federal Reserve system would never have been established. I remember in 1907 I think it was a great banking authority in Europe saying the United States banking system was uncivilized and the creation of the Federal Reserve system was an almost distorted effort to create a wrong banking system. It was in existence so long it could not be abolished any more than our banking system could be in Canada and it seems to us the Federal Reserve system has accomplished its purpose.

By Mr. Maclean:

Q. They have the greatest credit information in the world.

Mr. LADNER: I understand the Scotch system is entirely to be preferred. They are conducted on the principle of a re-discount bank, practically on the same foundation as the American system and it is also the same in the Bank of England.

The WITNESS: I think the Finance Acts meets the situation perfectly.

By Mr. Ladner:

Q. I am asking a definite question, if the principles of the Federal Reserve Discount Bank and advantages do not exist in England with the co-operation between the Bank of England and the Government?—A. I think the Finance Act of 1914 meets the requirements of the banking community of this country quite as well; meets any emergencies or conditions.

Mr. LADNER: I appreciate the Finance Act is extremely advantageous and is a step in the way of a Federal Reserve bank.

The WITNESS: You are asking me how it functions in England.

By Mr. Ladner:

Q. You made a reply with respect to the Finance Act; if I may put the question again?—A. I do not think you allowed me quite to finish. I think the Finance Act in Canada meets the situation perfectly for this country.

By the Chairman:

Q. Mr. Ladner's question was if the Bank of England did not in its operation correspond to a rediscount bank such as the Federal Reserve in the United States?—A. Yes, more or less.

By Mr. Ladner:

Q. Very largely. In France the principles which commonly enter into the Federal Reserves Banks are also operative, are they not; the bank of France functions as a rediscount bank?—A. Yes, somewhat similar.

Q. The same way in Italy and in Spain?—A. You know more about it than I do.

Q. I make no such presumption?—A. I dare say you are right.

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By Mr. Ladner:

Q. I got my information from reading.

The CHAIRMAN: European countries all have central banks.

Mr. LADNER: The point I wish to make in this; do you consider in International trade—

The CHAIRMAN: Gentlemen it is about time to adjourn and the question is whether we shall meet this afternoon; the Minister of Finance will be engaged that is true; but he is perfectly content that we meet.

Hon. Mr. FIELDING: I have no objection, but I cannot be with you; that is your misfortune.

Mr. IRVINE: Do we understand Sir Frederick is coming back?

The CHAIRMAN: Yes.

Committee adjourned until 4.15 p.m.

AFTERNOON SITTING

THURSDAY, April 19, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4.15 p.m., the Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, will you please come to order.

Sir. FREDERICK WILLIAMS-TAYLOR, recalled.

The CHAIRMAN: Mr. Ladner, you have the floor.

By Mr. Ladner:

Q. I have not my last question, Sir Frederick, but I will maintain the continuity as well as I can. The proposal which I am setting before the Committee would involve the creation of a credit chartered bank of which the 17 chartered banks of Canada would be the member banks. The system would be different from that in the States, because there they have so many individual banks and of course here you only have the 17. Now are there any re-discount facilities existing in Canada such as you have in the United States under the Federal Reserve bank system?—A. None, other, Mr. Ladner, except under the Finance Act.

Q. And what is that limited to? What class of securities?—A. High class securities.

Q. Commercial paper, 90-day paper?—A. Commercial paper, and grain bills, in the discretion of the Minister.

Q. That really means then, that the Finance Department is in the banking business behind certain operations of the bank?—A. You might put it that way, yes.

Q. Do you think those discount facilities in times of severe trade depression are sufficient and practicable?—A. Absolutely.

Q. Is the Government responsible for the paper that they take?—A. Responsible for the paper that they take? What do you mean, exactly?

Q. They receive commercial paper and give out notes. Is there a liability attaching to the Government in respect to that transaction?—A. No liability on the part of the Government. The only liability is as between the borrowing bank and the Government.

Q. There is a liability on the part of the Government so far as the notes are concerned, is there not?—A. Oh, yes, that is a different matter.

Q. And the securities they receive are by way of collateral or rather a straight security against the note?—A. Collateral security, "Collateral" is the right word.

[Sir Frederick Williams-Taylor.]

Q. So that if the collateral fail, would the Government have an ultimate responsibility?—A. If the collateral were insufficient, yes.

The CHAIRMAN: "Ultimate loss" would be better.

By Mr. Ladner:

Q. An ultimate loss, yes. So to that extent the Government is in the financial business or the banking business with a contingent liability?—A. Yes, I should say there was a contingent liability; a contingent possible loss, Mr. Ladner.

Q. As I understand it, it is very remote. Are there any facilities in Canada for the open market operations in discounts such as they have in the United States under the Federal Reserve system?—A. I think you asked me that question before, did you not?

Q. No, not that question.—A. The only facilities are the facilities afforded under the Finance Act.

Q. No, I mean this: suggestions have been made that in some portions of the country there is a too high rate of interest let us say. Now under the United States Federal Reserve Bank Act any bank that carries on business and charges too high a rate of interest, because they have a favourable situation, would be restrained by the Federal Board, which has the authority to come into that district with its own bills or its own moneys, and regulate that rate of interest. Do we have such facilities in Canada?—A. There are no regulating facilities of that nature. And through the wide distribution of branches, the rates are kept uniform throughout the country.

Q. On a competitive basis?—A. Yes, on a competitive basis.

Q. Have we any extra facilities for international banking such as prevail in those countries which have a re-discount bank?—A. You will have to tell me exactly what you mean, Mr. Ladner.

Q. Take the United States, when they had the Federal Reserve Bank they engaged in International trade and were able to handle commercial paper much the same as the Bank of England does. Have we the same facilities in Canada in foreign trade or do we simply do our own financing through the Bank of England or through sterling?—A. Do you mean exchange business?

Q. No, providing the international credits on trade?—A. Do you mean for the discount of trade paper against commodities shipped abroad?

Q. Yes.—A. That is all done through the individual banks. The individual banks go to the Government.

Q. In the United States don't the Federal Reserve banks carry that on chiefly?—A. The Federal Reserve banks will discount for the member banks, commodity bills, representing commodities.

Q. In international trade, is not that an advantage, the existence of a Federal Reserve bank with those powers?—A. We have all the facilities that are required in Canada in that respect.

Q. In your opinion, the Canadian facilities are just as good?—A. Yes, there is no lack of them.

Q. Do you think it would be in the interests of the country if such an institution as a Federal Reserve bank took over note issuing powers as well as the gold reserve, and the other functions of the Department of Finance and the Treasury Board, as well as the trustees of the gold reserve?

The CHAIRMAN: The witness is against a re-discount bank, or something corresponding with a Federal Reserve, so I suppose it does not matter what you ask him you will get a negative reply.

[Sir Frederick Williams-Taylor.]

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Mr. LADNER: Then we will have a record of it, Mr. Chairman and it will be a basis perhaps for something later.

The WITNESS: What is your question, Mr. Ladner?

By Mr. Ladner:

Q. My question is this: that in banking operations, from the point of view of the business of the commercial institutions of the country as well as the banks, would it not be better for the handling of the Dominion note issue, the gold reserve to it, the business of the Treasury Board, and the functions of the Government under the Finance Act, if these things were put into a corporate body like the Federal Reserve bank, controlled or partly controlled by all the banks and subject to certain Government supervision?—A. I think any such proposal is entirely premature and uncalled for at the present juncture. That is my own opinion.

Q. Supposing Canada had a population of 15 million, do you think the present bank capital and facilities are sufficient without either a Federal Reserve bank or additional capital?—A. I think so, but when we have 15 millions, you bring the matter up again (Laughter).

Q. Just on that point, I am informed that in 1904 the total banking capital of Canada was approximately, \$80,000,000. Would that be about right?—A. \$80,000,000? I should think that that was approximately right; it seems about right, but I cannot answer exactly.

\$80,000,000 of banking capital in 1904. Now in your opinion, if you can remember, would 1904 be a normal business year, with respect to commerce, industry and finance in Canada?—A. Well you open up a very big question there. My own private opinion is that we have had no normal conditions since about 1896. I think we have had rather fictitious conditions.

Q. You would not imply that with relationship to 1911 would you?—A. You are talking about 1904, and the years preceding 1904 and 1905. When you are getting along to 1911, I think things began to take an adverse turn.

Q. Then you have no opinion on that point?—A. Oh yes, I have an opinion.

The CHAIRMAN: You are not associating dates or particular years with politics?

Mr. LADNER: No, sir, I am asking the question by way of information.

The CHAIRMAN: When you mentioned 1911 and then 1896 was mentioned, I thought you were suggesting that. And Sir Frederick has no politics at all. Is not that right?

Sir FREDERICK WILLIAMS-TAYLOR: That is right.

By Mr. Ladner:

Q. As I understand it, in 1923 the total banking capital was approximately 125 million dollars, would that be about right?—A. If you have it there, yes.

Q. And a total reserve amounting to 130 millions in round figures?—A. Yes.

Q. Would you consider that in banking operations, as far as the interest of the country is concerned, that there was any relationship between the amount of capital available, and the business done as indicated in bank clearings throughout the year?—A. You mean, if 80 millions was sufficient in proportion to the liabilities of the banks in 1904, is 125 millions in the right proportion now?

Q. That is one question.—A. I do not know exactly what the proportions are. Can you tell me?

Q. My question really was this: has the banking capital in actual operation any important bearing or relationship with the business done as indicated by the bank clearings?—A. Yes.

[Sir Frederick Williams-Taylor.]

Q. You think it would have?—A. What exactly now is your question? If 80 millions is right?

Q. No, leave the figures out for a minute. Has the total amount of banking capital any relationship to the business done as indicated by the bank clearings of the country?—A. Yes, the turnover of the country; yes, there is a relation of course.

Q. Now I do not know whether you have any records, but I understand that in 1904 the bank clearings totalled about a billion and six hundred and twenty five million?—A. Yes.

Q. And in 1923 these bank clearings had risen to over 20 billion, and that deposits in the banks had grown four times the banking in 1904. Now the increase of capital is from 80 million to 120 million approximately; or about 40 million; or 50 per cent, but the business done in deposits is four times, and in bank clearings 17 times. Do you consider to-day that we have a surfeit of banking capital for the business of the country?—A. Well we may have had an excess capital in 1904. I think to-day we have a sufficiency of capital; it might perhaps be increased, but I think we have a sufficiency of banking capital.

Q. Would you say it was in excess of capital in 1904?—A. If we have a sufficiency of capital now, why then the logical deduction is that we must have had an excess in 1904, and I am quite convinced that we have a sufficiency at the present time.

Q. Supposing the bank clearings increased, or the turnover, the business of the country increases by another fifty per cent in the course of the next five years, would we require more capital in the banking business, in your opinion?—A. I do not know that we would require more capital, but an increase in the capital of the banks from time to time is advantageous and makes for greater confidence.

Q. For a number of years there has not been much increase in capital, has there, Sir Frederick?—A. No, that is true.

Q. Now in the absence of the ability of other people with a comparatively small amount of capital, compared with the present bank capital, to start banks, would not a Federal Reserve bank assist the financial strain upon the chartered banks in times of depression let us say, when the business increases and you have more deposits and more loans?—A. Yes, but you see Mr. Ladner, there is no financial strain on the banks, and therefore a Federal Reserve bank is not necessary at this juncture. That is my contention.

Q. Sir Frederick, we have had the other day from Mr. Bevington, a diagram, there are some still there, on which is indicated in blocks or pyramid shape, an inverse pyramid on a certain amount of capital with a greater structure of deposits and loans and so on?—A. Yes, I saw it.

Q. Now if you have 17 of those scattered throughout the country, that is 17 chartered banks, you can visualize the point I am going to make, when depression comes or where pressure comes, the banks are obliged to call in their loans like everybody else, are they not?—A. Obligated to call them in?

Q. Yes.—A. Banks strengthen their position. When you say "call in their loans," they might not disturb their current loans at all, but they would naturally call in their first line of defence, next to their gold, that is their call loans, which might be in London or New York. That is what happened, Mr. Ladner, in the war.

Q. That is true, but carrying it step further. Since 1837, approximately every ten years after a period of expansion boom, there has been a sharp depression, and in practically every case there has been quite a severe demand upon the business interests at large, to contract credit and call in the loans; that seems to be common knowledge. I have always thought, from the little I have known of it.—A. That is what has been happening to-day, Mr. Ladner.

[Sir Frederick Williams-Taylor.]

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Q. Take in 1907 in the United States, when there was a general depression and the banks were called upon under those conditions, the banks would be called upon to detract?—A. In point of fact that is not what has happened. I know of no period within my recollection where loans have been called in, commercial loans in Canada to any extent to the detriment of the country.

Q. What about 1913 and 1914?—A. Nor in 1913 or 1914.

Q. That is not my experience?—A. You have been a bad mark for credit and they may have wanted your money.

Q. No doubt there was a personal deficiency; at the same time I think it is common knowledge in 1913 and 1914 when there was a disturbance in stock operations there was certainly an insistence by the bankers upon detraction, isn't that a fact?—A. It was moderate, I don't know how much but the banks were strengthening their position. What I would like to make clear is that it was not done at the expense of the commercial community. If loans were called in they may have been stock exchange loans and that is what actually happens.

Q. Were not the businesses obliged to sell stock at sacrifices to get money to repay to the bank?—A. Well no doubt that happened in effect but to no material extent. We were not in the call loan business ourselves; we are not large lenders of call money. I cannot state from actual experience. I think Sir John Aird would confirm there was no calling in of loans at the outbreak of the war. If you care to ask him, Mr. Ladner, he would probably answer the question at once.

Q. I want to ask you, and it is not personal at all, but is necessary in the scheme I have here. I understand the Bank of Montreal is now and has been since 1863 the fiscal agents of the Government?—A. Yes.

Q. Now, speaking dispassionately, do you not think that it would be in the interest of the Government and the people if the 1917 charter in connection with Reserve Banks necessitated participation of the bank with the Government?—A. With the other bankers around here you will excuse me if I do not answer that and keep my face straight. My belief is that the Government of the Dominion of Canada is more indebted to the Bank of Montreal than the Bank of Montreal is to the Government of the Dominion of Canada; I want you to get that clearly in your mind, it is.

Q. It is not necessary to cover that information?—A. I do not see how a Government can have seventeen bankers; they must have a central bank.

Q. Does not the United States have the Federal Bank for its fiscal agents?—A. Yes.

Q. They do not have a number?—A. We do not want a Federal Reserve bank in the country.

Q. In your opinion, Sir Frederick, do you think that there are any disciplinary powers that may be used to advantage through a Federal Reserve bank on a bank's conduct?—A. Disciplinary?

Q. That exists in the Federal Reserve Bank of the United States?—A. I think any disciplining would be accepted with very poor grace by the bank. I do not quite see how that could be maintained. Of course the Government could do anything. Under the Finance Act we cannot do very much when it comes to handing out notes for security?—A. I thought you were speaking after the creation of the Federal Reserve Bank, could they exercise a disciplinary power.

Q. Would a disciplinary power in the hands of the Board be advantageous not only to the bank but the public at large?—A. I will have to answer you again in these terms. I think at the present time there is absolutely no room or place for a Federal Reserve Bank in this country.

[Sir Frederick Williams-Taylor.]

Q. Let us take the case of the Merchants Bank; I understand that just before the merger—I should not say failure, a term improperly used,—the Finance Department secured quite a large issue of notes against the proper security?—A. Yes.

Q. Is that correct?—A. At the time we took them over they were borrowers from the Dominion Government to the extent of several million dollars.

Q. Do you know how much?—A. Eight or nine million dollars, speaking from memory. May I interrupt you one moment, in addition to the securities that are pledged all the resources of the bank are behind the obligation to the Dominion Government. I should have said that before.

Q. At that time isn't it a fact practically all the other banks were not pledging their securities and getting their notes from the Dominion?—A. I cannot answer that question offhand. You surprise me when you tell me that no other bank was borrowing; is that what you mean?

Q. The point I am making is this, that the Merchants Bank drew abnormally notes from the Government beyond what the other banks were doing in a general way, is that statement correct?—A. Do you mean the Merchants Bank was a borrower from the Dominion Government but not the other banks?

Q. Not so much—I cannot answer that question but I can get you the information.

Q. From the inquiries I have been able to make, and I want your opinion on this, I am told that responsible bankers who had authority when the Merchants Bank made their request for further loans from the Government would have been able to inquire from the Merchants Bank the purpose of these loans largely at the time, that is other banks and the Merchants Bank manager would have been disposed to explain that these loans were for the purpose of some special transaction or if they were loaning any large sums to clients they could have inquired into the account and thus have avoided the failure or merger of the Merchants Bank; what do you say with regard to the suggestion?—A. It is within my knowledge that the Minister of Finance asked very pertinent questions on occasions when a bank is borrowing money when it appears that the amount requested is an excessive sum; that is within the jurisdiction of the Minister.

Q. Wasn't it the general opinion Sir Frederick about the time these moneys were borrowed that the Merchants Bank was engaged in let us say delicate transactions with some large accounts?—A. I think you are on pretty dangerous ground when you are talking about these delicate transactions.

Q. I do not mean with respect to integrity, I mean with respect to business stability?—A. I had no knowledge of delicate transactions that they were engaged in when they were borrowing money from the Dominion Government. I am not sure I had any knowledge they were borrowing largely. That is not knowledge that is given out by the Government or that we can obtain from the Government returns, for this reason that the indebtedness to the Dominion Government, due to the Dominion Government may consist of two things, either a loan by the Government to the bank, an actual loan or it may be money on deposit and I doubt if any one was aware that at that juncture, just before the collapse of the Merchants Bank that they were borrowing excessively.

Q. As against Dominion note issue there is a limited class of securities and specific class of securities under the Act.—A. High grade securities.

Q. The point I am making and on which I want your opinion if I can have it as a member of the Committee is that if a body was created, let us say a Federal Reserve Board which had certain disciplinary powers to inquire as to what they were going to use the money for they would have been able to save the shareholders quite a considerable sum of money and would not have taken

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these securities and given over the notes which went for the purpose or to this bad account.

The CHAIRMAN: There is no use proceeding on any further—

Mr. LADNER: The point is this that when a bank requires Dominion notes it puts up proper collateral; that proper collateral comes out of the capital of the bank. If they find these people taking the notes and handing them to creditors who are no good, what is the result when the shareholders in the last analysis suffer. If we had a body, let us say a Federal Reserve Board or a body in the Finance Department with greater disciplinary powers these men would have been able to scent the trouble and this would not have happened.

The CHAIRMAN: It is a matter of argument.

Mr. LADNER: That is no answer to my question, it is a perfectly fair question. I am asking whether in his opinion either a board of directors under the Federal Reserve Bank or some body under the Finance Department should not have disciplinary powers to inquire into transactions of that kind.—A. The Minister of Finance has it within his power to exercise just as great disciplinary powers as anybody.

Q. With all respect I submit he has not?—A. Just as great as any disciplinary power that could be granted by any Reserve Bank.

Q. Mr. McKenzie referred to the Act and I do not think you will find anything in the Act; there is nothing in the Act giving that power.

The CHAIRMAN: Giving the power to decline making advances to the banks?

By Mr. Ladner:

Q. If the banks come with the proper security they can get the notes and there is nothing in the Act that stops them.—A. The Minister of Finance can exercise the same power or he has full power either within or without the Act and he can see that the collateral is good and ask as many pertinent questions as may be asked by a Federal Reserve Board.

Q. Supposing a bank brought along Provincial Bonds to the Dominion Government and said here are five million Provincial Bonds will you hand me \$5,000,000 in notes; could the Minister refuse?—A. I think the Minister has a right to decline if he thinks the bank is borrowing excessively.

Q. My last point is in connection with the Finance Act of 1914; do you think the Finance Act provides sufficient—you perhaps have covered this—sufficient re-discount facilities?—A. Is that the question?

Q. Yes.—A. Yes.

Q. Do you think in the interest of the public at large and of the bank that it is advantageous to have the Government through the Minister and Departmental Officials engaged in the banking business in that way?—A. I think Mr. Ladner that the Finance Act works perfectly.

Q. That was not my question?—A. That is my answer.

Q. My question was—I am not trying to be impertinent or ungallant or ungentlemanly. I am a member of the Committee of the House which is very interested in getting not only reliable information but information from people most capable of giving it. I know of no gentleman more capable than you of giving information of the facilities under the Finance Act of 1914. My question is in your opinion do you think it wise and in the interests of the country and banks that the Government engaged in the banking business to the extent that it does under the Finance Act or should the finance operation of the country

[Sir Frederick Williams-Taylor.]

be divorced from the Government with the supervisory powers that the public interest warrant?—A. Yes, I think the Finance Act is a very wise Act indeed and I think it is perfectly true that it is perfect to-day as it has always been. We have been going along for the last thirty years and it has worked perfectly.

Q. In the development of trade, finance, commerce and industry do you think that the Finance Act and the powers under it and the operations of it should be continued or should we have a Federal Reserve Bank assuming the reserve as I put it before was increased up to fifteen million and that there was business corresponding it?—A. Well you know Mr. Ladner the question of a Federal Reserve Bank is not original of course with you. It has been talked about and discussed before and there are certain bankers who favour the idea. My own personal opinion is very clear that there is no necessity and it is quite premature for anything of the kind at the present juncture. I am not prepared to go decades into the future when our population is going to be doubled or trebled. It is conceivable in time that a Federal Reserve Bank might be necessary. I think to create it now would be to bring into being a very costly and cumbersome affair which is not required.

Q. That really seems to be the general objection I have been meeting with. Could not the Receiver General, his officials and facilities which are carried on at the expense of the Government be transferred into a Federal Reserve Bank?—A. My own belief is it would cost the country twice as much.

Q. In what way?—A. It would be cumbersome.

Q. You have certain work to do in the way of notes and why not use identically the same machinery, excepting you have a Board of Directors under the Federal Reserve Bank?—A. What is your question?

Q. I say you have under the Receiver General officers and directors and a complete department and certain work to be done requiring a certain expenditure. Now why could not that be done just the same, at the same cost and in the same way under a Federal Reserve Bank?—A. Why any change Mr. Ladner?

Q. That is not the question, that is not the effect of my question; the effect of my question is why should there be any extra cost?—A. Why should we make any change when we have a system working perfectly.

Q. Now Sir Frederick you are drawing a red herring across the trail?—A. My belief is it would be more expensive to change the present system under which the various departments function.

Q. I had been trying to find out in what way it would be more expensive, why?—A. You mean by the creation of a Federal Reserve Bank?

Q. If you take the existing machinery we have, we have the Treasury Board, we have our gold reserves, we have the operation of the Finance Act and the Receiver General's office and the Assistant Receiver General. Why couldn't you just transfer that into a Federal Reserve Bank at no further cost except the creation of a Board of Directors.—A. It would be very difficult to get a set of men with proper banking experience for one thing, and you would have a costly machinery which would not be fully employed.

Q. You have told us that two or three times; but why would it cost more, you have the cost of that machinery now excepting it is formed by the government and not by the bank?—A. I gather the point you want to make is that this Federal Reserve Bank would be a bank of rediscount as well as functioning in the other directions.

Q. I am only asking about the question of cost now at the initial stages, simply transforming the existing machinery into a Federal Reserve Bank, and marching onward slowly as events would warrant, would there be any addi-

[Sir Frederick Williams-Taylor.]

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tional cost?—A. Don't you think that is a question you should put to the Government?

Q. I will later on?—A. Yes.

Q. I am only asking you if you have the information?—A. I think it is a question you ought to put to the Honourable the Minister of Finance whether he can get a better and cheaper system than he has at present.

Q. In your opinion do you think the extra element of cost would be a material factor in the proposal?—A. I think it would; that is my belief.

Q. To what extent, have you any definite idea?—A. No.

The CHAIRMAN: If we should have a Federal Reserve Bank I suppose the little difference in cost would not matter very much; if it is established we should have it well we will have it, the little difference in cost would not be a factor in anybody's mind in determining what we were going to do.

Mr. HANSON: The only objection I understand raised is the cost of establishing a Federal Reserve Bank.

Mr. LADNER: The witness is not informed on it.

The WITNESS: How could I be informed on the question? Do not ask me foolish questions and expect me to answer them because I cannot answer a question like that.

Mr. LADNER: I am not asking any foolish questions?

The WITNESS: Well, it is a question I cannot answer.

Mr. LADNER: To ask the President of the Canadian Bankers' Association regarding the cost of transforming the rediscount machinery into a Federal Reserve Bank seems to me a very pertinent question and not a foolish one at all.

The WITNESS: I don't see how anybody can answer the question.

Mr. LADNER: You simply need to say so. There is no use getting sore at me about it. That I think, Mr. Chairman, covers the points of inquiry on the Federal Reserve Bank. I have one more question dealing with that amendment I have submitted.

By Mr. Ladner:

Q. Sir, Frederick, there is an amendment filed that provisional directors should qualify by stock subscriptions when the bank is being incorporated, so that their names would not be held out to the public, and then the people subscribe shares, and then afterwards they can slip out and let somebody else carry on the business, in your opinion do you think that would be a wise thing to do?—A. Is that in this same connection?

Q. No, another matter. Under section 20 of the Bank Act, a man to be a Director has got to have a share qualification of \$3,000 when the paid-up capital stock of the bank is one million dollars or less, and so on; under section 11 there are two subsections, and you will find that a provisional director requires no obligation whatever in the way of shareholdings, share obligations or subscriptions; the proposal of the resolution is that when the people undertake to hold themselves out as prospective or provisional directors in connection with a bank, that they should also have some obligation; do you think that a wise amendment to make to the Bank Act?—A. That is not an amendment contained in the Bill, is it, but something that you are putting forward?

Q. Yes, something I am putting forward?—A. Well, I don't know, it is a very difficult question to answer.

Q. You understand the question, do you?—A. Yes, that is whether the provisional directors should in point of fact have responsibility as a shareholder.

[Sir Frederick Williams-Taylor.]

Q. Yes?—A. Well, I am inclined to think that they should have, but there may be circumstances, I don't know I am sure where a bank in order to get under way has provisional directors—I think it is customary with all commercial companies to have provisional directors—I think your point is rather well taken, instead of an individual coming forward and then withdrawing presently after people have been tempted to buy the shares of the bank on the strength of his name; I think your point is well taken.

By Mr. W. F. Maclean:

Q. I would like to ask the witness one or two questions. I understand that Sir Frederick is speaking here as the President of the Bankers' Association and also as the head of the Bank of Montreal. He says he does not believe in a system for this country somewhat similar to the National Reserve Bank of the United States, and I ask him if he says that on behalf of the Bankers' Association and on behalf of the Bank of Montreal?—A. I said Mr. Maclean, that there were differences of opinion; I would not say that the whole seventeen banks of Canada were a unit in the statement that the Federal Reserve Bank would not be necessary for this country; I have heard it advocated by a banker of importance. I think the general opinion is that it is premature and unnecessary at this time, and it is very clearly my opinion.

Q. I will ask you for your opinion; do you think the United States have made a mistake in creating a National Reserve system there?—A. That is a moot question. I know some very excellent bankers indeed who think that the success of the Federal Reserve system in the United States has not yet been proven.

Q. I would say, my knowledge may be limited, but I think the system has met with almost the unanimous approval of the United States, and I say that all the leading banks of the United States, perhaps through compulsion, but they are member banks, are doing business on the National Reserve Bank system; you admit it is used and is in practice in the United States?—A. Yes.

Q. They have the National Reserve Bank system there?—A. Yes, it is the law; they cannot help themselves.

Q. All right, they have it there, and apparently as far as we can see it has been a great relief; it is not only more or less a Federal Bank for the purposes of the nation, but it is also a bank for the relief of credit and the improvement of business in their country. Now, there is another matter as to another kind of financial relief, and I am just going to read something that Secretary Hoover of the Government of the United States said before the Senate Committee on Banking and Commerce and Currency the other day. "He disclaimed any authority as an expert on banking and finance; his views however are reflected in a striking way by the rural credits legislation recently enacted at Washington; that such legislation was necessary, he said, he did not doubt." Now, this is the point, "There was a large barren credit area between the commercial credits extended by the Federal Reserve banking system and the long time loan on farm mortgages provided by the farm loan system; there was a real need for more credit in this area, but these credits should not be expected from the commercial bank, which of necessity had to loan out their deposits on short time." You also referred to that very briefly this morning; do you admit that there is a barren area of credit in this country as applied to the question of farming and stock raising interests of this country, and that does not quite come within the purview of the banks that we have now in Canada to cover that barren area of credit?—A. Well, it is conceivable there may be a gap between what a bank can do and what a loan company can do, and each keep strictly within the proper role as loan companies or banks.

[Sir Frederick Williams-Taylor.]

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Q. And therefore, I am quite sure you are cognizant of it, and probably the committee are that in the last session of Congress they put through this Act, and I have the Act just as it was passed, and the title is, "The Federal Intermediate Credits Banks," and they are created in connection with the matter of this extended credit to apply to this barren area, this legislation provides for that, and it also creates a Farm Loan Act, and the legislation with it, and they also bring in amendments to the Federal Reserve Act, which allows practically the credit of all the United States as a nation and the credit of the Federal Reserve banking system, and these new corporations that are being created to go to the relief of the farmers and the stock raisers, to function in the same way to cover that barren area—

The CHAIRMAN: Are you going to ask a question?

Mr. MACLEAN: That is the very point; and I want to get from Sir Frederick, and he practically admits it, that there may be this barren area in this country, and most of the evidence as I gathered it here the last few days from the former witnesses was more or less in that direction; I want to ask Sir Frederick whether he believes there is such a barren area in this country, especially in connection with the farm interest and live stock interest?

WITNESS: It is conceivable there may be, as I said before, a gap between the functions of a bank and the functions of a loan company. It does not come within my own experience; my experience is that there is no one in any portion of the country that wants to borrow money for farming purposes or any other purpose that cannot borrow money from a bank, but I have an open mind about it. It is conceivable there may be a gap between the two that should be filled by an organization of some nature or other. The only thing is I don't see how you can call it a bank.

By Mr. W. F. Maclean:

Q. Let me put it this way, that this legislation in the United States provides for the National Reserve Bank system, as it is called—that is the exact description of the National Bank there—it provides for that bank and all member banks of the National Reserve Bank system using their resources for discharging this function, to cover this gap, and therefore while the president of the Bankers' Association says he sees no present need for a National Reserve Bank system in this country, that is the very machinery that they are employing in the United States to cover this barren area. Those are all the points I want to raise just now, that the Bankers' Association does not believe in a reserve bank, but that Sir Frederick does admit there may be that barren area of credit—

The WITNESS: That is your expression.

Mr. W. F. MACLEAN: I am quoting that from Secretary Hoover, and I think it is a very apt expression, I think there may be a barren area in this country in some particulars, and I am much obliged for the answer.

By Mr. Cahill:

Q. Would the witness state what rate of interest the banks pay to the Government on their borrowings under the Finance Act?—A. Five per cent.

By Mr. Shaw:

Q. If I understand you correctly, the banking institutions of the country are meeting at the present time all the credit requirements that Canada needs to-day?—A. Yes.

Q. And so far as you are concerned and so far as your organization is concerned you are satisfied that every legitimate demand is being met?—A. Yes.

Q. And consequently under those circumstances you have no improvements or alterations to suggest in any way, is that the situation?—A. That is correct.

[Sir Frederick Williams-Taylor.]

Q. Now, I understand you to admit to the last witness that though it may not be within your knowledge, yet there may be a gap between the functions of the bank and the functions of loan companies, have you or have your organization any suggestions to offer to meet that situation?—A. Well, not at the moment, Mr. Shaw; we have not considered the point; that is, the association has not considered it.

Q. You are familiar with the farming conditions generally, are you not; you know that the farmer needs a credit substantially for his season's requirements; the banks are incorporated primarily for commercial transactions, the loan companies deal largely with long term loans, do they not?—A. Yes.

Q. Has your organization considered in any way meeting those longer term requirements than perhaps the banks can legitimately perform to-day?—A. Well, you see, Mr. Shaw, what happens is this, that in the length and breadth of Canada, and notably in the western provinces, a farmer can borrow when he has the basis of security; and he can borrow for six months, or he may borrow for a year, from any bank. The banks are in keen competition with one another to lend money to the farmers, I think the competition perhaps is too keen. In Eastern Canada there is very rarely what might be called a crop failure, and in the ordinary course, the banker, if his advance has been a wise one, is repaid at the end of the season; but in the Western Provinces, where there is bound to be a crop failure in certain sections, fortunately not always in the same section, although it sometimes happens three or four times in succession in one section, at the end of the year there has been a crop failure and the farmer is unable to pay his loan to repay it in full. Now regardless of what may be said to the contrary, it is the case that the banks of Canada show the utmost consideration to that farmer, and if he has a chance of extricating himself from the misfortune that follows upon a crop failure, they will not merely carry him along for another year, but they will give him fresh money for a second year.

Q. Now, Sir Frederick, have you had occasion to read a report, prepared by Dr. McGibbon of Alberta University?—A. Yes.

Q. And would you say that his report indicated that every legitimate credit requirement of the province of Alberta had been met by the banks, or do you disagree with his report?—A. Well it is quite possible that there may be a branch of a bank with a manager who has not extended to some farmer or other, the full facilities. That is quite possible, but I do say this—with some hesitation—that I could a tale unfold about the bank loan in Alberta which would show by the losses incurred by the banks, that they have not merely extended facilities, but they have over extended facilities.

Q. Would you say the folly lay with the farmers, or does the folly lie with the banks?—A. I think the competition among banks, as I admitted a moment ago, is perhaps too keen to lend money. As regards the farmer, of course I suppose the farmer is justified in borrowing every dollar that he can borrow; so the folly would not be with him. If a mistake has been made, it has probably been made by the bank manager, who may be afraid that some other bank is going to lend money to this farmer if he does not do it.

Q. You will remember that one of the chief assertions of Dr. MacGibbon was that many branches of the chartered banks in Alberta were charging excessive rates of interest. You will recall that assertion?—A. Yes.

Q. Now the Bank Act as I understand it, as at present framed, and as the draft Act proposes, fixes a legal rate of interest of seven per cent. You know as a matter of fact, Sir Frederick, that the banks charge out West nearly eight per cent and sometimes more.—A. They cannot collect more than seven.

[Sir Frederick Williams-Taylor.]

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Q. Yes, but they charge more do they not?—A. I think the rate of interest pretty generally might be more than seven.

Q. Well then can you afford to this Committee any justification in the face of that plain statutory provision, for charging a higher rate of interest than seven per cent?—A. Yes I can present for your consideration, Mr. Shaw, this defence, that out of the 1,219 banks operating in Western Canada 419 are operating under an actual loss, an operating loss. It is very difficult in these small places for the bank to make both ends meet.

Q. So that is your justification for violating—I mean the banks, not yourself—the plain provision of the statute?—A. I would not admit the word “violation” Mr. Shaw. We cannot collect more than seven per cent.

Q. You are evading then the provision of the Bank Act?—A. I do not like either word, evading or violating.

Q. The fact is that in order to get a larger rate of interest you discount notes of a prospective borrower?—A. Discount you mean as against interest?

Q. Yes.—A. Yes.

Q. And of course the result is that the rate of interest is then even in excess of eight per cent?—A. The discount would be slightly greater than the rate of interest, yes.

Q. As a matter of fact we will take in the city of Calgary or the city of Edmonton, or the commercial centres of the Prairie Provinces, in those branches are you aware as to whether or not the banks are making profits as a result of their operations there?—A. I don't think you had better ask me that question.

Q. Why?—A. Because I don't think it would be good information to give to the world at large.

Q. You think it would not. You mean to suggest by that the banks are not making any money whatever in the large commercial centres out West?—A. Now, Mr. Shaw, I think that you should not press that question. I have figures in my head which I would prefer not to give at this open meeting, because I think the result would be damaging to the credit of the Western Provinces.

Q. Now is not this a fact Sir Frederick, that while you do charge a higher rate of interest than the statutory rate in Western Canada, that perhaps in other sections of Canada, and notably Eastern Canada, you charge less than the statutory rate, is that correct?—A. That might be, yes.

Q. Or do you charge the statutory rate in all cases, and above it if you can collect it?

The CHAIRMAN: Mr. Shaw, you are not quite right in calling it the statutory rate; it is the maximum statutory rate.

By Mr. Shaw:

Q. All right, the maximum statutory rate. Sir Frederick understands the term, I think.—A. What is your question then, Mr. Shaw?

Q. Do you charge less than the maximum statutory rate in Eastern Canada?—A. The banks might charge less. Of course there is a reason for that Mr. Shaw.

Q. I suppose that the different sections of Canada require under normal conditions a different statutory maximum do they not? I mean, if you want to put in effect a statutory maximum at all and make it effective.—A. That you should have a different maximum statutory rate in different parts of Canada?

Q. Yes, in different sections of Canada.—A. I don't know about that.

Q. Is it not clear Sir Frederick that you are not abiding by the provisions of the statute so far as Western Canada is concerned?—A. You see Mr. Shaw the trouble is in the West as compared with the East in the matter of farm loans, that our losses are so much greater in the West that we have to charge.

[Sir Frederick Williams-Taylor.]

Q. Do you mean to suggest Sir Frederick, that the banks have never made money in the West?—A. No I would not say that they had never made money in the West.

Q. And have they ever, to your knowledge Sir Frederick, charged less than eight per cent in the West?—A. Oh I think so.

Q. As a general rule, I mean excepting special borrowers of specially large amounts perhaps?—A. Well I cannot speak positively in reply to your question but I should think the average rate was eight per cent in Western Canada. Seven to eight per cent.

Q. Very seldom is money loaned at seven per cent there.—A. Eight per cent is more common.

Q. So what I am trying to get at is the fixing of a maximum statutory rate has never been an effective barrier so far as interest rates are concerned?—A. Well, I am not going to admit that Mr. Shaw.

Q. It has been a barrier in some parts of the country but not in others, is not that the situation, and the fact is that the banks have taken advantage of the section, knowing that a man who agrees to pay a greater rate than the statutory rate cannot possibly collect it back. Is not that the situation?—A. Will you repeat that please.

Q. I say the man who agrees to pay the bank a rate greater than the statutory rate by that act puts himself along with the bank in the position of violating the statutory provision and consequently he cannot recover back any excess interest paid?—A. Well I don't like this word "violate" that you interject.

Q. What do you say then? Here is the section, 91?—A. I know the section. A rate in excess of the statutory rate.

Q. Well I will say evade the provisions of the Bank Act?—A. I think that is a nicer way of putting it. You know Mr. Shaw that eight per cent is really a paltry rate in certain circumstances. This is one of the cases cited—I am speaking entirely from memory, it just comes back to me—in Paris.

Q. Do you mean Paris, Ontario, or France?—A. Paris, France. Where the fruit vendors go to small moneylenders and borrow four francs, with which they buy fruit, which is vended and disposed of in the night time, and they come back to the little moneylender and pay him five francs, which is about 25 per cent is it not?

Q. You don't suggest that the banks should be given the same privilege?—A. 25 per cent per day and 25 times 365, and yet everybody is satisfied, the man who eats the fruit, the man who sells the fruit and the moneylender.

Q. Are you advancing that as a reason why the banks should be allowed to charge a greater rate?—A. No, but I don't see anything desperate in an eight per cent rate.

Q. No, but the provision of a maximum statutory rate in the Bank Act and in the proposed Bank Act in its present form, is that an effective barrier so far as the banks are concerned from collecting a higher rate of interest?—A. In practice they collect a higher rate of interest.

Q. And as you say, that constitutes an evasion of the provision?—A. No, I have not said that.

Q. You do not? Well then what do you call it? How do you designate it?—A. The borrower is not compelled to pay this rate. He can go to another bank.

Q. And he can get it from another bank for a less rate?—A. He might.

Q. I suppose that you would perhaps be more familiar with banking in the last two decades, or the last three?—A. I have been 45 years in banking.

[Sir Frederick Williams-Taylor.]

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Q. Very good. Then I will say the last four decades. I suppose that conditions change very rapidly from decade to decade do they not?—A. I have seen a good many changes Mr. Shaw.

Q. And I suppose very frequently bank conditions in Canada and credit conditions in the country change from year to year? Very frequently, probably every five year conditions would alter from the conditions existing?—A. Not always necessarily moving in the same direction, backwards and forwards.

Q. Do changing conditions require different methods and so on. With that situation in mind don't you think it would be desirable to revise the Bank Act every five years instead of every ten years?—A. I hope it will not be taken down in Hansard but God forbid.

Q. Why do you call on God Almighty to forbid?

Mr. McKAY: He is a friend of the bankers.

The WITNESS: I think ten years is too long an interval.

By Mr. Shaw:

Q. You would prefer a longer period than five years?—A. Yes.

Q. Can you give to this Committee any logical reason why the revision should not take place every five years?—A. Do you know of any country in the world where they revise—

Mr. McKAY: Do you know whether there is a statutory limitation.

By Mr. Shaw:

Q. It is not a question of whether I know myself, I am trying to get the information for the benefit of the Committee.

The CHAIRMAN: The renewal of the charter—the Bank Act can be amended any time.

By Mr. Shaw:

Q. I think Sir Frederick and I understand each other?—A. I cannot ask you questions.

Q. I have no objection if the Chairman will allow me to answer?—A. I know of no country where the bank is called upon to renew its charter.

Q. Is that in answer to my question; just because it is not done does not say it is not correct?—A. I think it must be; I think there must be something in it.

Q. What I suggest is a revision or renewal of the Bank Charter every five years which will give all the stability that the banks require while at the same time it will afford an opportunity of revision by Parliament in order to meet rapidly changing conditions in this country?—A. I think once in ten years.

Q. Is too much?—A. Is a short enough period.

Q. Now you are Sir Henry the President of the Canadian Bankers' Association?—A. I am not Sir Henry.

Q. Sir Frederick, I have the privilege of including him amongst my friends; we are mutually gratified, I am sure, Sir Frederick you are President of the Canadian Bankers' Association?—A. Yes.

Q. The functions of the Association are set out in a Statute organizing that organization. How do you fix rates in various parts of Canada, is that done by the Bankers' Association, or in what way?—A. The rates that we charge on loans?

Q. Yes?—A. There is no fixed rate.

Q. How does it come that the bankers seem to come to the same conclusion without any conference or arrangement?—A. They all have to pay dividends.

[Sir Frederick Williams-Taylor.]

Q. Do they all pay the same dividends?—A. They all pay a dividend and charge a certain rate in order to earn the dividend.

Q. I could understand if they all paid the same dividend, they would all naturally charge the same interest rate. Where different dividends are paid does it not follow different rates of interest are charged to borrowers?—A. There is no concerted action on the part of the banks with respect to the rates they charge their customers.

Q. It sort of happens mysteriously?—A. Nothing mysterious. The rate of interest is the least they can get along with; there is one exception and that may be in the case of call loans where there is sort of an understanding.

Q. There of course it is fixed by the laws of supply and demand more particularly?—A. Yes, more or less; the rates charged by the bank on call loans as a rule are uniform.

Q. You say that is done pursuant to arrangement?—A. I didn't say by arrangement, but tacit arrangement.

Q. Having disposed of that matter, how do you fix the interest rate you are going to pay the depositors of the bank?—A. That is by agreement.

Q. Is that by agreement of the Canadian Bankers' Association?—A. The bankers are in agreement.

Q. Is that a resolution of the Canadian Bankers' Association communicated to the various bankers included in the membership of the organization?—A. The bankers are in agreement as to the rate of interest they can pay.

Q. Could you point Sir Frederick to some definite resolution of your organization which makes provisions to that effect?—A. Three per cent has been allowed for so long it is quite beyond me as to when it came into being.

Q. Supposing a bank started in to allow 4 per cent some day what would happen?—A. Stop their dividend, I would think the first thing.

Q. There would be no action taken by the Canadian Bankers' Association of any character to bring to justice the offending members?—A. Do you mean supposing some bank decided it would pay 4 per cent?

Q. Yes.—A. I think we would have no power to prevent them if they wanted to.

Q. You have never been called upon to exercise any anyway?—A. No.

Mr. SHAW: Now I do not want to take all the time of the Committee, I suppose Sir Frederick will be here to-morrow?

The CHAIRMAN: I would rather you finish, Mr. Shaw, make it as brief as you can. There are other members of the Committee who might want to ask some questions and we cannot possibly give every member much time.

By Mr. Shaw:

Q. There has been Sir Frederick in the last twenty years a centralization of the money power of the Dominion, has there not. For instance if I were to turn back the pages of history twenty or thirty years ago we would find twenty-eight banks operating and to-day there are seventeen; the tendency is for that to go on?—A. Yes, I should think it would continue, with the permission of course of the Minister of Finance.

Q. Is that a good thing?—A. I think it is a very good thing to eliminate a weak bank.

Q. Do you think it is a good thing that there should be an increasing centralization of the money power of this country in the hands of a decreasing number of organizations?—A. I do not think we have reached the point where there is any possible danger at present.

Q. Is there any possible danger in that centralization?—A. It would not be a good thing to get down to the one bank.

[Sir Frederick Williams-Taylor.]

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Q. Why wouldn't it be?—A. There would be no competition.

Q. What do you suggest Sir Frederick, competition effects so far as the banking institutions of Canada are concerned. It does not effect the rate of interest, what does it effect?—A. The competition?

Q. Yes.—A. Yes, it does effect, terms, not merely the rate of interest, the amount and terms in which the bank check up a customer is effected. There might be a little more interest or a little less interest; there is a maximum rate of 3 per cent on saving accounts, and they may charge lesser amounts on drafts and so on. There is a very active and very lively competition among banks.

Q. I am asking for some illustrations. I have not been able to observe it myself in my limited experience; I do not suggest that as evidence. What I want to ask is what particular illustration you can give me where competition among the bankers to-day has an effect?—A. Has an effect?

Q. Yes, what does it effect; you said there is a very strenuous competition?—A. There is a competition throughout the whole country from Halifax to Vancouver for loan business. We are all the best of friends among the seventeen bankers and we all legitimately and properly take each other's business every day that we can, for the benefit accruing to the customer.

Q. The only place where it effects is not in the rate of interest charged that is benefiting the consumer or borrower, not in the interest he will get for his deposits but rather in the accommodation given to the public?—A. It might be in the rate of interest charged on loans.

Q. Do you suggest the bankers are charging different rates to-day?—A. The stereotyped rate is about 6 per cent or $6\frac{1}{2}$ per cent or 7 per cent; depending upon the quality of the intrinsic merit of the borrower.

Q. Just one other question. Referring back to the Canadian Bankers' Association for a moment, in Professor McGibbon's report that there was a suggestion if you will recall that the banks had had some sort of an arrangement by which these discounts of notes, discounting of notes was to be continued whereby increased rates of interest were charged to Western farmers?—A. You are speaking of discounts as against interest. I am not aware if there is such an arrangement in the West or not. There might be, I am not aware of it. The general practice Mr. Shaw is to discount a note throughout the world at large, not to charge interest but discount.

Q. My point is whether or not there was not an agreement entered into at Winnipeg to arrange for this continuance of this discounting where I understood it had been for a time at least dropped. That is the suggestion made in Professor McGibbon's report, isn't it?—A. I am not aware of that.

Q. You have no knowledge of that?—A. No.

By Mr. Cahill:

Q. What relation does capital bear with regard to loans on account of capitalization to the banks or in relation to the deposit?—A. Do you mean that it has a banking limit.

Q. Is there any limit the banks of Montreal may make provided they have deposits—if they have a billion dollar deposit how much loans can they make—has it any relation to the capital of the bank?—A. In general terms it has. There is no specific relation. The bank uses its judgment in the matter maintaining always such liquid reserves as it thinks necessary in the interests of the institution, so much in cash and so much in liquid reserves. More specific in reply to your question there is no direct relation, arbitrarily relations, proportion of capital to loans or deposits, that is what you want to know, am I clear.

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Q. Are your loans covered by your deposits to a large extent; if you have deposits you can make loans?—A. Our loans must of necessity be—

Q. Below your deposit?—A. Be in proportion to our resources. That is, a bank will keep, say, 20 per cent in cash and will keep, say, 60 per cent in liquid assets out of its combined capital and deposits and the balance is available for what we call current loans; that is clear, isn't it?

The CHAIRMAN: Let me say just a word. We have about fifteen minutes left for this afternoon; Sir Frederick would like to be free to-day so that he may go to Montreal. I want to point out to the Committee that there will be six other bankers called. Now, so far to-day nobody has asked any questions of Sir Frederick regarding the amendments to the Bill. Now, I was going to suggest, if it meets with the approval of the Committee, that we reserve questions regarding the amendments for some other bankers. The questions submitted to Sir Frederick have been of a general character and I suggest we continue that way. There is no use going over the ground with all bankers, otherwise we will be here to next year.

Mr. JACOBS: We assume the members of the bank are in agreement in their views.

The CHAIRMAN: No, I am not saying.

Mr. IRVINE: I have a number of questions I would like to ask Sir Frederick.

Mr. HUGHES: Would Sir Frederick please tell me what constitutes the accrued liabilities of a Canadian bank at any particular date, say, the last day of any month; what constitutes the accrued liabilities on any particular day of the month or any day of the year of the Canadian bank?—A. The bank has its liabilities to its shareholders.

Q. Accrued?—A. What do you mean?

Q. The liabilities that come due on a particular day, I want to get what constitutes these liabilities?—A. Accrued?

Q. The bank's liabilities.

The CHAIRMAN: The liabilities to the shareholders to the depositors?

By Mr. Hughes:

Q. The liabilities that they may be called upon to pay on demand.—A. The liabilities a bank may be called to pay on demand on a certain day.

Q. Yes, that is it exactly?—A. That is within the knowledge of the executive who must of necessity make the arrangements to meet their responsibility. A bank knows on a certain day it is going to have cheques issued upon it in payment if interest or moneys withdrawn; deposit moneys and the bank of necessity makes provision for it. Does that answer your question?

Q. It will be sufficient. Just one more question: Is any bank in Canada in a position to pay its accrued liabilities as outlined by yourself?—A. Well, I hope they do.

Q. All its accrued liabilities in specie for Dominion notes or both combined on any particular day?—A. You are speaking of accrued liability.

Q. That it might be called upon to pay?—A. Yes, of course a bank might be called upon to pay all its liabilities.

Q. No, they wouldn't be all due?—A. No, the great bulk of it is due because a very large proportion of the bank deposits are payable on demand.

The CHAIRMAN: A bank is not usually called upon.

By Mr. Hughes:

Q. I want to get the information. The bank has, according to the Bank Act, ninety days in which to realize its assets, but there is no bank in Canada

[Sir Frederick Williams-Taylor.]

APPENDIX No. 2

in the position to meet its accrued liabilities in specie or Dominion notes or in both on any particular day?—A. There is no bank in Christendom.

Q. That is right.—A. Yes.

By Mr. Irvine:

Q. I shall be as brief as possible. I have got one or two answers given by Sir Frederick I want a little more clearly put. He offers as an objection to the proposal of Mr. Bevington, that it would mean fiat money if we established that system and I would like to know what he means by fiat money and I would like to have that distinctly understood; would he say what he means by fiat money?—A. Fiat money is money that is issued by the Government without any gold behind it and without any limit to the amount that can be issued. If you want an example you have Germany.

Q. Would Dominion notes, in the opinion of the witness and from the point of view of the witness of what constitutes fiat money, would the Dominion notes in which he says the bank's notes are redeemable if required, would Dominion notes be considered fiat money?—A. It is governed by statute, Mr. Irvine. It states specifically the extent to which the Dominion Government can issue notes. They can issue \$50,000,000 and of that amount 25 per cent must be held in gold.

The CHAIRMAN: It used to be 70 per cent.

The WITNESS: \$37,500,000 is the amount.

By Mr. Irvine:

Q. The Dominion note is fiat money?—A. I did not say so.

Q. I am asking you if it is?—A. I am telling you it is under the Statute. The Government must have a certain amount of gold behind it.

Mr. SHAW: As long as it is within the Statute it is fiat money.

By Mr. Irvine:

Q. Is the Dominion note fiat money. I don't know whether it is fiat money or not; all money is fiat money; you have something that is not fiat money?—A. The Dominion Government has some fiat money out in point of fact, because although the Statute is that the Government may issue \$50,000,000 of notes against which it holds \$12,500,000 in gold and in access of that there must be dollar for dollar in gold, yet in the war the Government issued \$10,000,000 on one count which may be described as fiat money and \$16,000,000 against securities which might perhaps be termed fiat money and these amounts are still out. Am I right, Mr. Ross?

Mr. Ross: Yes.

By Mr. Irvine:

Q. Do I gather from that that the Dominion money is not fiat money?—A. I have gone to a great deal of trouble to tell you what is and what is not.

Q. It might be considered part fiat money and part not.—A. Yes, there is a certain amount of fiat money in circulation to-day, unfortunately.

Q. Did you understand when you made the charge against the proposal of Mr. Bevington when he advocates that money should be issued on private security that if the Dominion Government issues Dominion notes on private security as they are doing to the banks at the present time would that be any more fiat money under these conditions than at present?—A. It would be no more fiat money than the circulation of the Dominion Government is fiat money. It would be fiat money as compared with the note, or the proportion that the Government can properly issue.

Q. In that case there would be no difference between Mr. Bevington's proposal of the present credit system in so far as credit money is concerned?—A.

[Sir Frederick Williams-Taylor.]

So far as the proportion of the Dominion Government circulation is concerned that might be called fiat money.

Q. Therefore your objection to the proposal might be withdrawn?—A. My objection is not withdrawn.

Q. The Dominion Government did issue \$10,000,000 of fiat money in 1914 to meet maturing notes, did it not; do you know anything about that?—A. Was that the purpose, Mr. Ross?

Mr. Ross: Yes.

By Mr. Irvine:

Q. That was fiat money?—A. No.

Q. Was that sound currency?—A. Was it sound currency?

Q. Would that constitute sound business or sound currency?—A. Justified by the circumstances that existed at the time.

Q. The circumstances must determine in all cases whether fiat money is to be recognized by a country or not.—A. You do many things when there is a war on you would not do in ordinary times.

Q. The answer is then that the circumstances determine, not the amount of gold we may have. Do you not issue fiat money every time a loan is extended to a customer?—A. No, that is not fiat money.

Q. Well, I think you admitted that a loan became a deposit, that is, if a man secures a loan on securities given, gives his note to the bank, you give him, or allow him after discounting his note to place to his credit a deposit for the amount of the loan, is that so?—A. Yes.

Q. You have a note as security of some form or other?—A. Yes.

Q. You take a note for the security and it is proposed to be good security for the loan, even more than the loan is that not so; you would not accept security for less than the amount?

The CHAIRMAN: Are you talking about collateral?

Mr. IRVINE: Yes, it might be a note just the same. They take the note that is only a promise and acknowledgement.

Q. That is conceded, they do take the note?—A. Yes, it is banked up by collateral that is satisfactory to the bank.

Q. When that has been done you enter up into the book to this man's credit the amount of the note and permit him to write cheques on that deposit, would that be fiat money, would the cheques be fiat money?—A. A cheque is an order on a banker; it is not money.

Q. When the banker is faced with the order he will give bank notes?—A. Yes.

Q. Just a promise to pay is it not?—A. Yes.

Q. Then in reality you have exchanged the bank's promise to pay, which is fiat money, backed by the assets of the bank, in circulation as money, you have given that which is the bank's promise to pay in exchange for the farmer's promise to pay, only the farmer's promise to pay is worth more than the bank's promise to pay and you are permitted to charge from eight to ten per cent interest on your fiat money and the farmer is not; is that the correct interpretation of the transaction?—A. Tell me exactly what you mean.

Q. Did I describe the business transaction?—A. Yes, that is quite clear.

Q. Am I correct in saying that the bank's note is a promise to pay?—A. Yes.

Q. Am I correct in saying it is backed by the assets of the bank?—A. Quite right.

Q. Am I correct in saying it circulates as money?—A. Yes, quite right.

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Q. Therefore not having gold but only your assets, it is fiat money?—A. No, it is not.

Q. According to your definition, I was following your definition.

The CHAIRMAN: Mr. Irvine, that process which you mentioned does not mean an increase in the issue of the bank's notes; that is limited to its capital by law.

Mr. GOOD: What difference does it make?

Mr. IRVINE: There is no difference in my mind whether it does or not.

The CHAIRMAN: I am under the impression that these loans necessarily mean the building up of the bank's note issue; that can only go to a certain plane.

By Mr. Irvine:

Q. Sir Frederick, I may inform you the Chairman is not on the point between you and I. The point between you and me is that you have the bank's issue of notes which is the bank's promise to pay; it is not backed up by gold; it is backed by the assets of the bank, and therefore according to your own definition is fiat money. You exchange that when you are giving a loan; you exchange that for a note.—A. Excuse me, the bank note is convertible into gold.

Q. The bank note cannot be converted into gold, we haven't enough gold to do that?—A. Under the War Measures Act.

Q. Anything might happen in the future as you said a few minutes ago. I cannot speak for to-day or for to-morrow.

Q. It is a matter of authority is it not the issue of notes; therefore that would mean inasmuch as the bank notes were under the Finance Act, issued under the authority of the Government and not on the basis of gold they are fiat money according to your definition?—A. The bank note is convertible into a legal tender in ordinary times.

Q. That is the privilege which the bankers enjoy over and above the borrower whose note is as good as theirs?—A. I beg your pardon.

Q. Let me put it this way: If I as a farmer come to you and I have collateral; I want to borrow from you, I call it borrowing, it is not borrowing; it is an exchange one note for another. I exchange my note for the bank note because the bank note has the privilege of being fiat money through law and is therefore more convenient for me. I exchange my promise to pay. Yours has the value over mine in that it is fiat money by law, is that not so; if it is not so, what is so.—A. Under the Finance Act a bank can pay its own obligation its own notes but before the Finance Act came into force and when we get back again on a gold basis you have the note of the bank and you can change that note into gold when the country is on a gold basis. Therefore the note of the bank is a general asset and it is convertible into gold and not fiat money.

Q. You admit at the present time it is fiat money inasmuch as we have no gold basis in Canada at the present time?—A. I beg your pardon.

Q. Would you admit that the bank note is fiat money inasmuch as we are not on a gold basis in Canada, pro tem, at least that is the condition at the present time, it is fiat money.

The CHAIRMAN: You mean it would be a tremendous discount. I am going to answer you sometime but I am not going to do it here; I think you have gone over this ground pretty well.

Mr. IRVINE: I haven't got the answer and if it is not fiat money his definition is wrong. I will drop the question if you want me to.

The CHAIRMAN: You have got the fact; you can call it whatever you like.

Mr. IRVINE: I think it is quite clear to the Committee it is fiat money. I want to cover this and I will be very brief. He said it was impossible to state

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arbitrarily the exact amount of gold necessary to re-establish a gold basis. My question is if it is impossible to state arbitrarily the exact amount of gold required to re-establish a gold basis how does he or any one else know when we will be or when we can be on a gold basis or when we were or will be?—A. We will be a gold basis when the country can meet its obligations in gold.

Q. Am I wrong in saying we will be on a gold basis when the Parliament of Canada says so?—A. No, not necessarily.

Q. We will not have gold until the Parliament of Canada says so.—A. At the moment the export of gold—there is an embargo on the export of gold without the permission of the Government; that is the reason we are not on a gold basis.

Q. I cannot get the information from you?—A. I am not quite sure you know what you want.

Q. I am perfectly certain sir I know what I want.—A. I am most anxious to answer your question.

Q. I think perhaps you cannot; I do not mean that unkindly but I mean you have not studied this matter.

Q. I think the witness said this morning that the banks had nothing to do with inflation; did inflation occur or did it not occur because the bank did not have enough liquid assets to meet the demands of their depositors?—A. Because the banks did not have sufficient liquid assets to meet the demands of—

Q. Deposits?—A. No, that did not cause inflation; that is not the cause of the inflation.

Q. Supposing as you have at the present time loaned a great deal more money than you really have assets; you are loaning the money of the depositors. If you have an extraordinary demand of depositors to draw money out, their money, would that not mean that you either had to call in your loans or deflate or commit such an act as may add to extend your circulating medium. Is there any connection between the requirement of depositors in this regard and inflation or deflation.—A. Banking in practice keeps in a liquid position in point of cash and general liquid reserves where it can meet all ordinary demands upon it; if there is an extra demand owing to a run why then they have to have money on their other securities, not necessarily by calling in their loans, but at the present juncture what would happen, what has happened is, that they would go to the Minister of Finance and borrow against the securities in their possession and in that way satisfy any further demand.

Q. The inflation which took place during the war had nothing to do with the depositors drawing out their money; it was brought about by the increased volume of business by the war?—A. Not that I am aware of.

Q. What brought it about then; was there any inflation took place in Canada during the war?—A. Inflation in prices?

Q. Inflation in credit, extension of credit?—A. Yes.

Q. What caused it?—A. You are asking a great many very complicated questions Mr. Irvine.

Q. Yes, I think so?—A. Very difficult to answer. You really might ask a question that Sir Isaac Newton could not answer and I am not a Sir Isaac Newton; I am a practical man, that is all; I am not a master of economics. There was world-wide inflation through the creation of credit instruments, and that was partly true of Canada, although the inflation did not go to as great length here as it did in some other place.

Q. Did the bankers of Canada or did they not have anything to do with the deflation which is going on at the present time?—A. No.—you mean that we would be calling our loans, forcing our customers to pay up?

Q. Yes?—A. The banks are not responsible for anything of that sort.

Q. Are you aware that in the Monetary Times of January 7, 1921, we

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have this heading: "Leading bankers forecast tightening of credit," are you aware of that? Are you aware that your own name is here on your own statement forecasting the tightening of credit?—A. I have forgotten about it; what is it; when was it published?

Mr. CAHILL: Will the witness be available at the next sitting? It is after six o'clock.

The CHAIRMAN: The witness will be available in the morning, but we have to hear from Sir John Aird too.

Mr. IRVINE: I am not through.

The CHAIRMAN: You will have to continue tomorrow.

The Committee adjourned until to-morrow at 11 a.m.

FRIDAY, April 20, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Honourable A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Mr. Hanson makes a motion which will appear on the record. We will resume where we left off yesterday. I understand there are a few questions yet to be asked of Sir Frederick.

Sir FREDERICK WILLIAMS-TAYLOR, recalled.

The CHAIRMAN: Sir Frederick wishes to make a statement in answer to a question asked by Mr. Good yesterday.

WITNESS: Mr. Good yesterday made a comment on the precipitancy or ruthlessness with which certain guarantors had been asked to liquidate their liability to a certain bank, which we ascertained afterwards was the Bank of Montreal; may I answer your question, Mr. Good, for the benefit of yourself and the Committee. It is not necessary to mention the name of the borrower, but it was a co-operative society in Ontario, and the organization started in a small way in 1917. In 1920 they spread out and invested largely in real estate. In 1921 their operations resulted in a loss of \$20,000, due in large part to poor management, and their liquid capital entirely disappeared. The bank showed every evidence of assisting the project if the working capital was restored, and they agreed with Mr. Good in July last to carry the account along for another twelve months provided the sum of \$10,000 cash was subscribed by the shareholders of the company and invested in the business, as he suggested. Subsequently around the first of October, at a meeting of some of the directors of the society at which Mr. Good was not present, we believe it was decided it would be absolutely useless to put in an additional \$10,000 capital, as it would be of no benefit to the society in its present condition, and the affair came to a climax when the manager of the company pointed out to his directors instead of raising additional capital it would be much better to put the business into liquidation. Subsequently the manager resigned and voluntary liquidation took place. That is according to our records, Mr. Good.

Mr. GOOD: I do not wish to prolong the discussion of this particular instance, but the report is erroneous in several matters of fact, and the impression which it would convey is also I think distinctly misleading. But I do not wish to discuss the details because it would take us a long way; however, I happen to know all of the circumstances connected with the affair very intimately, and all I wish to say now is that there are two sides to that question, like every question.

[Sir Frederick Williams-Taylor.]

By Mr. Irvine:

Q. When we concluded our meeting last night I was dealing with the answer which Sir Frederick had given to some of the witnesses previously dealing with deflation; he had said that the banks had nothing to do with deflation; then I had asked him if he had any knowledge of the article which appeared in the *Monetary Times* of January 7, 1921, with a heading, "Leading bankers forecasted tightening of credit," and here we have statements from, I presume, all of the leading bankers in Canada. I had asked Sir Frederick if he was aware that his own name appeared here to an article or a contribution to this article on deflation; are you aware of that?—A. I have forgotten about it, but I have no doubt if it appeared in the *Monetary Times* it must be more or less correct.

Q. Would you be surprised to learn that in this article you acknowledge that deflation had to take place as a policy of the banks?—A. What did I actually say?

Q. May I read it?—A. Yes, will you?

Q. This is an excerpt: "With reference to current loans in Canada your directors have felt impelled for many months past in the bank's and in the country's best interests to follow the policy found essential in every other country, and keep within bounds our advances to merchants and manufacturers. This policy is in accordance with the views of the Dominion Government and it has been followed more or less closely by all the Canadian banks. Naturally enough, exception has been taken in certain quarters to such restriction, but as a rule our customers have recognized the necessity of checking over-trading and further expansion in such times as we are now facing."—that is an acknowledgment of the point that I had at issue, that the bankers had taken an active part in the deflation of credit, is it not?—A. That statement I think was quoted from my annual address to the shareholders in December.

Q. That is right?—A. And that is strictly in accordance with the facts.

Q. What effects do you think deflation of credit would have upon manufacturers, for instance, or business generally?—A. Deflation of credit that took place at that time was in the interests of the manufacturers as well as of the banks and the community at large.

Q. In what way would the curtailment of credit be to the interest of the manufacturer?—A. It was a dangerous time in which to buy heavily of goods at the high prices that then existed.

Q. It would be better in your opinion that the manufacturer should not sell at all?—A. Oh, no, not that they should not sell, but that they should keep well within bounds.

Q. Of course we will agree we should keep within bounds in all matters, but is it so or is it not so that when you deflate credit in the bank there is less credit for doing business, and consequently less purchasing power in the hands of the people, and consequently stagnation of business and manufacturing?—A. I do not follow you in the entirety of your remarks. What takes place is this, that a manufacturer with a credit in ordinary circumstances of say a million dollars, might with a lesser knowledge of world wide conditions and Canada wide conditions than that knowledge possessed by the banks, think that he should renew his credit for a million dollars, whereas in our opinion it might be dangerous for him to take that million dollars borrowed from us and stock up heavily in the face of falling prices and diminished demand; those two important things synchronizing as they almost invariably do.

Q. To whom would that be dangerous, in your opinion?—A. It might be disastrous to the borrower, and it might be dangerous for the bank.

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Q. What would the manufacturer be likely to do with his million dollar credit that you refer to?—A. The manufacturer, if his credit was curtailed, would manufacture less.

Q. Therefore if he got the million dollars he would manufacture more?—A. He would manufacture more, the more money that the bank advanced him.

Q. Do you think that it would be harmful to Canada if all our manufacturers were manufacturing more goods?—A. I think it would be very harmful indeed to Canada if the manufacturers of Canada over-manufactured and glutted the market with goods in excess of the market demand.

Q. You say then to have too many goods in a country is a sign of financial danger or collapse?—A. One might answer that in another way; I am satisfied, and I think all thoughtful business men in Canada are satisfied now, that the advice given to their customers by other banks in the months immediately following the war, saved the country from a very serious situation indeed. If we had not with the consent in some cases and approval of our customers after discussion curtailed their credits, unquestionably many of them would have gone to the wall with very serious consequences to this country. You follow me?

Q. Yes, I follow that; that is rather ignoring my question. Do you agree that all of our debts, whether national or international are ultimately paid in goods?—A. Yes, I think that statement is correct.

Q. Then the more goods we have in the country, in Canada say, the more able we would be to pay our debts, national or international?—A. Providing you can sell them, not otherwise.

Q. That is providing we can use them?—A. Provided you can sell them.

Q. Supposing we forget about the selling and look at the other facts which are deeper than selling?—A. You cannot get away from selling, because nobody gives away goods that I know of.

Q. I am not trying to get away from it, but I am trying to get at the basis of our economic problems in so far as they relate to the banks, and if you agree that we pay our debts in goods, then it would surely follow that the more goods we have the more capable we would be of paying our debts?—A. You are perfectly correct, providing you can sell your goods, not otherwise.

Q. Of course I cannot pay debts in goods if the man to whom I owe the debts does not need my goods, I quite agree with that; that is where we need money so that we can exchange and give him what he wants?—A. There would be no use in our producing our wheat in excess of our ability to sell wheat, would there?

Q. I agree. Would you say that we have so many notes in Canada now that we cannot sell them, or that we had at the period at which deflation started more goods than the people of Canada could consume?—A. More goods than the people of Canada could consume or the manufacturers could sell abroad.

Q. You say that?—A. There was more.

Q. Have you any means of proving that, have you any figures on that to show why you make that statement?—A. Every bank is in possession of unlimited data on that subject; I have nothing beside me naturally.

Q. You are quite certain you had data to prove we had more goods in Canada than the people could possibly consume?—A. Following the war.

Q. Are you aware that we could do with about two hundred thousand houses in Canada at the present time, that we need them?—A. Two hundred thousand new houses, that may be.

Q. Are you aware also that we want a canal from the St. Lawrence to the Great Lakes?—A. A canal from where?

Q. To join the Great Lakes with the St. Lawrence for the sake of facilitating the transportation of western wheat—I just mention these as instances where

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we could still consume more goods in Canada providing we had the credit to institute the enterprises; these are only instances?—A. You do not expect me to agree with you.

Q. I am sorry if you cannot?—A. I cannot agree with you on that.

Q. Why? What is the ground on which you disagree?—A. That if we built a canal there would be many people employed in the construction of the canal, and that then more goods would be required for the use of those people employed in that construction. Is that your statement?

Q. That is not my statement, but part of it may be interpreting my statement?—A. I am interpreting you correctly?

Q. If you go on you are?—A. The more people in the country the more goods would be consumed, that is fundamental, that is my answer.

Q. But my question implies this, that the people of Canada can consume more goods now providing they had the purchasing power, and that by the curtailment of credit you have curtailed their purchasing power, so that a man who has one pair of shoes would buy two or three pairs, and a man who has one suit of clothes would have two or three suits, and a man who had no house would have a house; we have all the other facilities required, we have the workmen, we have the tools, we have the raw material, but the thing we require is credit, which the bankers have hold of?—A. I think your premises are wrong. It is not the lack of bank credit.

Q. Tell us what it is the lack of?—A. It is not the lack of bank credit, unless you mean we should loan money to people who cannot afford to borrow, and have not the collateral to pledge.

Q. In that case it would be the banker's fault, would it—from your own statement it would follow, if that is what you mean, it would imply that the bankers were to blame?—A. Oh no, the bankers are not to blame at all; do not twist it around in that way to suit yourself; the bankers are not to blame in any respect.

Q. You think they are an absolutely blameless number of people, the bankers?—A. No, I don't know that we are 100 per cent, but we are about as decent people as exist in the community at large.

Q. I think I would be prepared to grant you that?—A. Thank you.

Q. There is no relation or connection, you think, between the amount of credit circulating in the country and the volume of business which can be conducted in the country?—A. It is entirely a question of supply and demand.

Q. Is it a question of supply and demand?—A. I think it is, and the banks are supplying the whole demand of the country; that is unquestionable; it is within the knowledge of every one, and I should have thought it was within your knowledge.

Q. It is within my knowledge that they are not supplying the demand of the country, and that is why I am asking you these questions; if I were possessed of the knowledge that they are supplying all the demands of the country I would be an idiot to ask these questions. It is because I have good grounds for believing they are not that I am asking these questions. If you can prove to me they are you will teach me something and teach the Committee something?—A. If there is any section of the community which has something to pledge which a bank can advance money on, and it is not able to borrow from some bank in the country then it is absolute news to me.

Q. In your answers you are dealing with the bank more or less as a business institution without having reference to its function in society, the contribution which it must make to society, and the basis of the credit which it has the privilege of handling. I am rather dealing with the fundamental things than the technique of banking; you are dealing with the technique of banking.

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Have you real understanding when you are handling your banks what the function of the bank is in the community? If so, what is that function?—A. I am afraid we entirely differ in one notable respect, that I am just a plain banker, and you are a student, I should judge, with a technical knowledge of things that I do not happen to possess; that is the difference.

Q. We won't press that question. We will come back to the deflation question for a minute, and then I will be through. Did the Bankers' Association to your knowledge prior to the decision of the Canadian banks to institute deflation, have a circular letter from any one or any organization urging deflation?—A. I do not know from what source such a letter could emanate, but it was the concerted opinion of the bankers that deflation was in the best interests of the country, in the interests of the bank and the interest of the borrower and the interest of the community.

Q. You have no knowledge then that they received a circular letter from any person anywhere prior to the decision to deflate?—A. Will you tell me what there is behind this question?

Q. It does not much matter what is behind it, I am trying to get at what happened. If you did not get a circular letter all you have to do is to say so; if you got it then you can give what is behind it?—A. I am a little mystified from what source such a circular letter could emanate.

Q. So am I?—A. But I may tell you the banks had the sympathy of the community from top to bottom, whether it was expressed in letters or otherwise, I am not prepared to say.

Q. I am not discussing or questioning about the community's acquiescence; I was trying to get at the question as to whether you did or did not as a banker's association receive any advice by way of a circular letter or otherwise from any other organization in Canada or out of Canada advising deflation?—A. I think I can answer it in these terms, that my belief is that we had the sympathy—that is not exactly the right word—of the government of the day in our desire to assist in improving the situation that existed.

Q. I may say I have not in mind the government of the day in this question; but you did not receive any letter from any one, or did you?—A. I had no letter.

Q. I do not mean you personally; did you have any knowledge that the Bankers' Association received any letter?—A. I do not know anything about any letter; you did not write me, did you?

Q. I do not recall at the present moment if I had I should have advised you very differently. Would you so far admit that the bankers in Canada have control of the credit issue?—A. Yes.

Q. And thereby may deflate or inflate, either, at their wills, or as the economic demands of the country seem to them to warrant?—A. Quite right.

Q. You have that power. Did the Bankers' Association have a meeting to consider deflation some time in 1920 or 1921?—A. We had no special meeting.

Q. Did you consider deflation at any meeting which was not a special meeting?—A. It might very possibly have been discussed, but there was no meeting held for the purpose, and it was not the principal subject of discussion at any meeting.

Q. Was it embodied in a resolution at that association's meeting at any time that you should deflate?—A. No such resolution.

Q. Are there minutes of the association kept?—A. Oh, yes.

Q. Would it be possible to see these minutes with regard to any discussion that may have taken place regarding deflation at that time?—A. No, unless at the command of the Honourable the Minister of Finance.

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Q. Well, we shall have to command the Honourable the Minister of Finance, I am afraid. That is all I have to ask.

The CHAIRMAN: Any other questions?

By Mr. Woodsworth:

Q. Mr. Chairman, I would like to ask a few questions, if I may. I have not been in consultation with Mr. Irvine and, unfortunately, I was not able to come yesterday afternoon. A question is raised out of the discussion yesterday morning. I would like to ask the witness what really determines, in his opinion, the value of money. It is the measure of all commodities. What determines what money itself is worth?—A. You want to know what determines the value of money. First, you want to know what money is.

Q. No, money is evidently the measure of all other commodities, or the value of all other commodities. What then determines the value of money itself?—A. The ability of the holder of that money to convert it into gold.

Q. Since we cannot convert it at the present time into gold, what determines its value?—A. It is accepted with confidence throughout the whole community and answers the purpose equally well. Is that your answer?

Q. It is in part; that is as to whether it has value. But it does not decide as to what its particular value is. Has the quantity anything to do with it?—A. Has the quantity of the money anything to do with the value? Not if there is a sufficiency of gold behind it.

Q. But now that we are not on the gold standard, has the amount of money in circulation anything to do with its value?—A. The amount of money in circulation is in strict accordance with the requirements of the country under our very admirable currency laws.

Q. Then the amount has something to do with its value?—A. There is no excess of money in the community. Automatically the circulation of the banks is retired every day, beyond the requirements of the people who wish to carry money in their pockets.

Q. Do credit instruments such as cheques not act or function as money?—A. Yes.

Q. Then would you not say that at any given day there might be a very larger amount of money in circulation than there had been the day previous?—A. It varies constantly, of course.

Q. Then in accordance with the variation that would lead to a change or a variation in the value?—A. According to what?

Q. According to the amount in circulation the value would be altered?—A. Not necessarily.

Q. Then if we doubled the amount, as referred to in the matter of Germany or Austria or any of the European countries, would not that effect its value?—A. Absolutely, because there they have fiat money, irredeemable.

Q. Then the quantity does affect the value?—A. The quantity affects the value in those circumstances, where there is no proper basis for the money, which is not real money but paper money.

Q. We have no gold basis to-day?—A. Yes, we have. We have a very excellent basis.

Q. A gold basis?—A. We are not on a gold basis strictly speaking at the moment.

Q. Well, on the basis on which we are, what determines its value?—A. What determines the value of money is the confidence in that currency by the people of the community passing it from hand to hand without question.

Q. May I go a little bit closer then?—A. I wish you would come a little closer physically. I do not hear you well.

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Q. We will say that wheat was \$2 a bushel and that now it is \$1 a bushel. Has the amount of money in circulation anything to do with that change in the buying power of money?—A. The amount of money in circulation, Mr. Woodsworth, is in strict keeping with the requirements of the community and if wheat is \$2 a bushel more money is required than if wheat is only \$1 a bushel.

Q. Supposing we should arbitrarily lessen the amount of all kinds of money in circulation, would not that affect the prices of all kinds of commodities?—A. But we are not going to do anything of that kind, are we?

Q. If we did that?—A. But we are not doing it.

Q. Isn't it right to ask that question, if we do?—A. I don't think it is a fair question, Mr. Woodsworth. You are putting a purely hypothetical case, it seems to me.

Q. Have we not increased at times the amount of money in circulation?—A. It rises and falls with the requirements of the trade of the country, automatically.

Q. Possibly we are putting the effect for the cause. If we increased the amount of money would not that affect the price of commodities, and if we reduced the amount of money would not that affect the price of commodities?—A. If we reduced the amount of money in the country? But we are not going to reduce it. The amount of money in the country is in strict accordance with the requirements of the country.

Q. But if I understand you aright you say the amount of money in circulation, taking all sections of the country, does fluctuate from time to time?—A. It fluctuates in strict accordance with the requirements of the trade of the country and for no other reason.

Q. And you would not say that that has a relation to the price of commodities?—A. It has only this relation, that if the prices of commodities rise, then more money is required.

Q. I will leave that, Mr. Chairman. There is another point the witness said this morning that any man could borrow who had collateral, who could furnish security?—A. I do not mean, Mr. Woodsworth, that he could borrow for two or ten years from a bank, because you understand that that is not banking.

Q. But he could borrow for certain needs?—A. Yes.

Q. Then what do you mean by collateral, what form has it to take?—A. Well my early teaching tells me that there are three forms of wealth in this world. There is the wealth of silver and gold and precious stones, cattle, houses, and lands. Physical wealth. Then there is the wealth of credit, which is based to a large extent on the possession of the first form of wealth, but not entirely and not necessarily wholly on the possession of physical wealth, and then there is the wealth of labour.

Q. It was with regard to the third that I wanted to ask. Supposing I stand as a labourer, a man skilled in a certain trade, and I want to go to work. Would you regard that as in any sense security for my obtaining a loan?—A. No, that is not a basis for a banking loan, Mr. Woodsworth, because your ability to labour depends entirely on your ability to wield a spade or a pickaxe, or whatever it is you are going to labour at, and if an unkind fate, or if Providence should remove you from this sphere the day after you borrowed the money, the bank would have no security at all, because your labours would have ceased.

Q. And yet labour is the basis or one of the bases rather of credit, Sir Frederick?—A. So it is. In the hypothetical case you put, you could borrow money from your grocer, doubtless, if you have a job, and from your bootmaker if you want a pair of boots, and so on; but it is not a good basis for a banking credit a man's mere ability to labour, unbacked by any form of security of any kind. Am I clear?

Q. Yes sir. I had in view the case given to me by the Bureau of Labour the other day; of a thousand men waiting in my own city of Winnipeg, willing to work on farms, having farm experience and having families to look after, is there not way the bank would feel that their ability to work, taking the whole thousand of them, would form a basis on which money or credit could be given?—A. No, in no country in the world that I am aware of could a workman borrow merely on his ability to labour. Borrow from a bank.

Q. Two or three questions dealing more directly with the Bank Act. What are the objections of the banks to having a Government audit, having an absolutely outside auditor come in?—A. I am not sure that it is the objection of the banks any more than it is the objection of the Government that may exist now and that has existed in the past when this question has been discussed. Because if the Government audit the books of a bank, the Government automatically become responsible.

Q. Then the bankers, what is their objection to having an outside Government audit?—A. We would have this objection, that we think it would be a very difficult matter indeed Mr. Woodsworth, for the Government auditors to satisfactorily inspect and audit our banks with their innumerable branches and our theory is that it would be very cumbersome and the results would be highly unsatisfactory.

Q. Another point brought up the other day. There was a witness here representing the Bradford Chambers of Commerce. In Canada I believe that the banks have priority claims. Is there any reason why they should have in Canada, when as I understand they do not have priority claims in Great Britain?—A. The only other country that I am aware of where a bank can take security on the goods in the possession of an individual, on his own receipt, is Newfoundland. It is not the case in England, you are quite correct. Section 88 of the Bank Act, which is the section you refer to, was enacted a great many years ago; it was conceived not in the interests of the banks, but in the interests of a community where the amount of accumulated wealth was naturally small, this being a new country, and it was a very ingenious and excellent conception, and the benefits that have accrued to this country in consequence of it are in my opinion and the opinion of all the bankers in Canada, and I think the great bulk of the community who have to do with Section 88, quite incalculable. It would be quite impossible for Canada to have developed in the way that Canada has developed without section 88. May I give you an illustration, Mr. Woodsworth, because this is an important matter and I would like to say a word or two about it.

An individual or group of individuals, have a capital of say a million dollars, and they desire to go into a manufacturing business of some nature or other. It is necessary for the conduct of that business that they should have premises. They put \$750,000 of their capital into their plant, leaving them with \$250,000 of working capital. Now the amount of money that could be borrowed from a bank, without section 88, would be in strict keeping with their working capital, a bank might loan a similar amount, say \$250,000 more; so that with their own \$250,000 and the \$250,000 provided by the bank, the company would have \$500,000 of working capital at its disposal with which to operate a plant that cost \$750,000. Now under the wise provision of section 88, which gives a bank a first lien on this security, provided the money is advanced at the time—and that is a very important feature, a bank cannot take a security receipt except against a loan made concurrently. Now as I say under this wise section 88, a bank can take a first lien on the goods of the manufacturer, and it enables the bank to lend the manufacturer, not \$250,000 but possibly three times that amount, and thus enables the manufacturer with a limited amount of

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working capital, to treble his turnover and earn dividends in keeping with the amount of money invested in his plant. I think you all follow that, gentlemen? It seems to me very clear. Is it clear to you Mr. Woodsworth?

Q. Yes, quite. Do you consider it a good thing for the manufacturers of Canada that they should have such large lines of credit?—A. It has worked to the advantage of this country to an extent that is beyond all calculation in my opinion.

Q. That is for the manufacturers of this country?—A. The manufacturers, and to the advantage of the employees of course. And if it is to the advantage of the manufacturers, it is to the advantage of the whole country.

Q. Going on the principle, that the interests of the employees are the same as those of the employer?—A. Well, they at any rate get employment.

Q. Is there any objection to legislation limiting the amount to be loaned to one of the directors or to any one customer?—A. Well, if the director has perfectly good security, it is a question in my mind whether there should be any limit other than the good judgment of the executive of the bank.

Q. Does not that give great power to the banks to throw credit in this direction or that direction and refuse it in others?—A. To their directors?

Q. Yes.—A. But it is a power that in point of experience in fact has never been exercised within my knowledge.

Q. Would there be any objection to limiting the amounts to be given to directors as I believe there is a limit to the amount to be given to the officer of the bank?—A. I think it would be a hardship on a director of a bank if he were forced, with a perfectly good security, such as Victory Bonds we will say, to go and borrow from some other bank. In other words, Mr. Woodsworth, I think if the collateral is good, in my opinion the director merely because he is a director, should not be debarred from borrowing.

Q. Is there any fundamental reason why the banks themselves should issue currency and charge interest on such currency issued? Why should not the State issue its own currency?—A. Well, I have an interesting record here on that subject, which I would like to read to you. It has had great care in its preparation, and probably is a more complete answer to your question, Mr. Woodsworth, than I can give you word perfectly, verbally.

MR. CAHILL: Mr. Chairman, could the witness sit whilst he is answering these questions? It must be very tiring to have to stand and answer questions all the time.

SIR FREDERICK WILLIAMS-TAYLOR: I am very much obliged to you for the suggestion, but I think I would rather stand as presumably it may shorten the ordeal.

I would like to read to you a very excellent statement on this subject, Mr. Woodsworth; or at least it seems so to us bankers; a very excellent statement compiled by one of our most talented bankers, and agreed upon by us all.

“I said a little while ago that the best paper money in the world, in my opinion, and the only paper money that should be permitted, except under stress of war, when everything is contrary to the usual, is such a note as that issued by a Canadian bank, and I shall now try to make that clear. The fundamental thing about the Canadian banknote is that it is issued always to perform some credit service; it generally goes out to do something definite. After it has done that one thing, and perhaps a second or third thing, it comes back and is redeemed and disappears. It is only a temporary instrument put out to perform a service, and when it performs that service, it comes back and is killed. So far as its security is concerned, it is the first charge upon the bank, ahead even of the States, and

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every bank guarantees by a very simple system, the notes of every other bank. We thus have a quality which we did not have originally, although the national banking system of the United States did, that under no circumstances can any private individual loose on banknotes by the failure of the bank or through geographical reasons, because the note is a long way from home. Every Canadian Bank is forced to have in every Province of Canada, a centre of redemption. So we have a circulation which can only be inflated because prices are inflated, and an undue amount of loans have been made by the bank. When prices fall, and loans are restricted, the banknote circulation at once lessens in volume, in precise accordance therewith. The notes issued by a State bank or any notes issued by a Government, if they are legal tender, do not come back regularly for redemption. They will, if the individual holding them needs gold, but as a matter of fact there is no such thing as the daily withdrawing of such notes they have performed their particular service. If they are notes of the Government, I ask you to remember that their mission each time they go out is to transfer a mere evidence of debt from one man to another; they are only an evidence that the Government owes money to someone, not that some commodity is being produced or moved to market. The money passes by virtue of a fiat and is apt to stay out, because it is a legal tender. That is the difference between the two systems. You can have a country most seriously inflated as you have in England at the present time, by the issue of too much fiat money. You will find very few countries in the world where the privilege of note issue is left to the banks. In almost every country that privilege is sooner or later taken away from the banks and given to the Government."

That sounds first rate up to that point, does it not?

"Or to a central bank, which is the Government instrument. The reason for that is almost invariably the same; war has caused the country to resort to some form of expressing debt, one form of which has been an issue of legal tender money, and almost always the banks circulation privileges have been taken away in order to put this into circulation."

By Mr. Woodsworth:

Q. Just following that, in order to clear the situation for myself a little bit more: it has been stated that when the currency issuing function is granted to a bank, it practically doubles the capital of the bank. Is that true?—A. The bank, Mr. Woodsworth, is permitted to issue circulation up to the extent of its capital.

Q. That has the practical effect of doubling the capital of the bank?—A. Yes; that is, provided the public take that amount into circulation from the bank.

Q. Then if they do, they can charge interest on twice the amount of their real capital, or approximately twice?—A. I don't quite follow you Mr. Woodsworth.

Q. I say, if the privilege of issuing credit, which is granted to a bank, has the effect of practically doubling the bank's capital, it means that the bank is in a position to charge interest on twice its real capital?—A. Yes, but there is a cost of the circulation.

The CHAIRMAN: I think there is a misunderstanding. Sir Frederick was talking about the note circulation of the bank being equal to its capital, and therefore in that sense doubled; but you are talking about the credit.

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By Mr. Woodsworth:

Q. No, I am speaking of the extent of capital on which the bank may charge interest?—A. Mr. Woodsworth means that you take the capital of the bank and the note issuing power, giving you double the amount of your capital, and you can lend that to the community and charge interest on it.

Q. Yes, and that means that interest is collected on twice the capital.

By the Chairman:

Q. If it is all employed?—A. Yes, if it is all employed. But, Mr. Woodsworth, of course that is not free from cost of charges to us, that circulation. We calculate that the cost of putting out our circulation and keeping it alive is annually 1·75 per cent of the average amount outstanding.

By Mr. Woodsworth:

Q. Then my point is, if that is the real cost of doing this, why should the bank collect interest on more or receive more for that in the form of interest than the cost of service?—A. The Government gets a handsome profit as you know on its circulation with the banks.

Q. It gets a certain amount. Is there any reason why the banks should charge interest on twice their capital and be able to secure interest if it is working, on twice the amount of the capital?—A. The bank is impelled or compelled, to charge a rate of interest on its loans, Mr. Woodsworth, that will enable it to pay its dividends.

Q. But that does not touch my point does it?—A. I think so, because it regulates you see, the rate of interest that you charge. If a bank could pay a reasonable dividend, and charge its loan customers only three or four per cent, there would be no justification for charging six per cent.

Q. It is stated that in the Commonwealth Bank of Australia that up to June, 1921,—I have not the latest figures—the net profits earned by the Government-owned banks amounted to 17 millions odd, and a note issue had earned for the people in Australia, up to the end of 1920, a sum of 38 million odd. That is from the two sources jointly, these two sources of revenue, have created since their inception no less than 56 millions of dollars odd in profits. The statement has been made, that the accumulated profits of 56 millions are something in the nature of a financial miracle, that is that they have been created out of nothing, I wonder if the witness can explain how a bank could start with practically nothing, as this Commonwealth Bank did start, with no capital, and that in the course of a few years, it should accumulate some 56 millions?—A. As to the Commonwealth Bank of Australia, I have got 5 pages of information about it here.

The CHAIRMAN: No, we do not want that. Answer briefly, Sir Frederick, please?—A. The Commonwealth Bank of Australia is really the Government of Australia. They borrow money from the public and issue their securities, and use the bank to any extent that they may see fit within their discretion, for their own borrowing purposes.

By Mr. Woodsworth:

Q. That function of issuing money is a profit bearing function, a profit carrying function. As I said a few minutes ago the doubling of one's capital is in itself of a nature of function that brings profit to the one to whom the privilege is granted. In Australia it was the government itself who took advantage of the profit sharing; here we grant it to the private banks.—A. Of course the Commonwealth Bank pays no taxes to the Commonwealth; it is free of taxation; so that it is a nice question whether really it results in any profit to the country.

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Q. Would you say that the taxation which the government receives from the banks in any way equals the profit from this privilege?—A. I should think the Government of Canada are better off with our system than the Commonwealth of Australia is with the Commonwealth system.

By the Chairman:

Q. Is there any profit to the bank in the right of note issue?—A. Yes, there is a profit.

Q. Would you care to approximate it so that we will end the question quickly—there is a cost to the bank?—A. Yes. We figure, I do not know that the other banks are in complete agreement with me, that the cost of our circulation is 1.75, but it would be impossible to tell you what profit we make on that circulation, because it goes into the general assets and resources of the bank.

Q. I have always understood that banks calculate there is about 2 per cent, or something less, profit; is there any advantage to the country in giving the right of note issue to banks? Does it enable the banks to give a wider service which they could not give if they did not have the right of note issue?—A. The great point is the flexibility of the Canadian currency system issued by the bank; it automatically is cancelled.

Q. That is not quite my question. I may be wrong. Supposing the banks had not the right of note issue and it was held by the Government, say, would our Canadian chartered banks be able to have as many agencies scattered throughout the country as they have?—A. The banks of Canada, Mr. Chairman, would be placed at a very serious disadvantage, and in all probability they would have to restrict the facilities that they afford the public.

Q. Anyway there is a profit to the bank in the right of note issue?—A. There is a profit, unquestionably.

By Mr. Woodsworth:

Q. Just one practical question here: is it legal for a bank to add interest to notes when discounting them, or to charge interest on overdrawn accounts when the rate charged is in excess of 7 per cent.

The CHAIRMAN: We went into that. Ask the next bank official.

Mr. WOODSWORTH: I was away yesterday. I will withdraw my question if it was discussed.

The CHAIRMAN: I suppose Sir Frederick might be kept here for days and days, if every member of the Committee asked him the questions they desire; but there must be a limit to it inasmuch as there are five or six other bankers to appear before us. To-day was set apart for hearing Sir John Aird, the General Manager of the Bank of Commerce, and I presume he would desire to return to Toronto to-night. I hope it is acceptable to the Committee if I say we can discharge Sir Frederick. I do not want to impose upon the Committee.

Mr. COOTE: I cannot agree with you, and this is my reason, that Sir Frederick is the President of the Canadian Bankers' Association, and I should think we should have the privilege of asking him some questions which we would not need to bring to the other witnesses if we put them to Sir Frederick.

The CHAIRMAN: Sir Frederick said he would be back next week. Have you anything in mind yourself?

Mr. COOTE: Yes, I have, but I do not desire to impose my will on the Committee if Sir Frederick can be back. These are questions I would like to put to the President of the Canadian Bankers' Association.

The CHAIRMAN: Well, go ahead.

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Mr. COOTE: I may just as well leave it over till next week if it is the desire of the Committee.

Mr. IRVINE: Go ahead now.

The CHAIRMAN: Go on.

By Mr. Coote:

Q. Mr. Ladner yesterday in talking of the Federal Reserve system made a statement to the effect that they had disciplinary powers over the other banks. Has the Canadian Bankers' Association any disciplinary powers over the banks who are members of that association?—A. Disciplinary is a word that might be defined in different ways. I think it perhaps is too strong a word, Mr. Coote. The powers of the association are really very moderate. The association with the approval of two-thirds of its members may make by-laws, rules and regulations respecting all matters for the appointment of curator; second; supervision of the making of notes of the banks for circulation; third: the inspection and disposition made by the banks of such notes; fourth: the destruction of notes of the banks; fifth: the custody and management of the central gold reserves; sixth: the imposition of penalties for the breach or non-observance of any by-law, rule or regulation made by virtue of this section. Not otherwise, you see. That is clear, is it not? So that the disciplinary powers of the association are confined to the regulations contained in this section in the Bank Act. Then the association has power to enforce the carrying out of any by-law, rule or regulation so approved by the Treasury Board.

Q. The impression that I have gained from your statement regarding our chartered bank system and the way it has been conducted, is that it has taken care of all the requirements of this country in a proper manner, and has not abused its privileges. Seeing that you are the head of the Canadian Bankers I thought possibly that you were not aware of some of the things that have been done by members of that association, and that it would be quite proper they should be brought to your attention. The first thing I wish to refer to is in regard to the rate of interest. I think you said yesterday that they kept the rate of interest uniform throughout the country?—A. Not by agreement, Mr. Coote; it automatically remains more or less uniform.

Q. You gave us the impression that it was uniform?—A. Yes, it is uniform, more or less uniform.

Q. I have here sixteen notes, I think every one of them has written on the face of it that they draw 10 per cent interest, and they are made in favour of a chartered bank. I personally saw a note this summer which had been made in favour of one of our chartered banks, and had been paid, and the holder of the note showed it to me, and it had been discounted, and the interest which had been charged was 12 per cent per annum. I think it only right that these things should be brought to your attention?—A. That is not illegal, you know. The statutory limit is 7 per cent—

The CHAIRMAN: He is only calling your attention to it.

WITNESS: Then may I make one remark, that there is nothing very terrible, it seems to me, if even, in the case of a small note, the borrower has to pay 10 per cent. If you go across the line you will find very much higher rates charged; and you take a note of \$100, 10 per cent means \$10 a year, or \$5 for a half year. It sounds a very high rate of interest, but \$5 for the use of \$100 for six months is not disastrous.

Q. Might I ask you a question right there, it comes out of your own remark, when you said that this was not illegal; do you think it would be

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quite proper to make it illegal; it could be done, I understand?—A. To make a higher rate than 7 per cent illegal?

Q. Would it be altogether proper?—A. It would be within the powers of this most excellent Committee on Banking, but automatically you would close half the branches in the country, and that would not be a good thing for the community.

Q. Another thing which you said in your remarks when you were referring to the restriction of credits by the banks in the year 1920 or thereabouts; you referred to, I think the superior knowledge possessed by the banks some times in regard to the giving of these credits. I want to draw your attention to a statement which was reported to have been made by the superintendent of the Central Western branches of the Bank of Commerce in the year 1920. He says, "To my knowledge some of the banks for several years have been systematically canvassing good grain customers in stock districts to get them started in live stock. In view of the needs of the western live stock industry, the banks have declared it to be their policy to make loans to farmers for the purchase of breeding cattle, and, subject to reasonable conditions to grant renewals, permitting young animals to be carried to maturity." You said also in answer to Mr. Woodsworth, I think, that loans of two years or more was not banking; do you think it is possible to reconcile your statement with that which I have just read, where the banks were urging grain men to borrow money from them to buy breeding cattle, to get into the cattle business, because cattle cannot be raised and finished for the market in two years, not less than four years?—A. Sir John Aird will answer your question much more becomingly than I could; but I think it is a very excellent circular. It seems to me in making that statement that the Bank of Commerce was going out of its way in an endeavour to develop a very legitimate industry for the western provinces; and in reply to your question I may seem contradictory as between that statement and the statement that two-year loans are not good banking—it is not good banking for a bank to deliberately lock its money up for two years, because its deposits in the main are on demand. But we all know that in practice the banks lend money for six months subject to renewal, knowing perfectly well it will run into two years or even more; and what the Canadian Bank of Commerce did presumably in Alberta was in the best interests of the community, with their eyes open, departing perhaps from the strict rule of banking, but doing it in the interests of that particular community to which the raising of cattle was of the utmost importance. Have I answered you?

Q. Yes; but I do not want to leave a false impression on you or with the Committee; I do not think this was a circular issued by the Bank of Commerce. It was a statement by an official of the Bank of Commerce of what many of the western banks had been doing, banks outside the Bank of Commerce possibly as well as their own?—A. You are not going to blame the banks, are you?

Q. No.—A. You are going to praise the banks, if you are not going to blame them?

Q. I am going to ask you another question right now which may be will decide this thing. In view of the statement which I read, that is, of the banks advising these men to go into the cattle business, I want to quote from Professor McGibbon's report in Alberta. He says: "The campaign to go into beef production proved peculiarly ill-timed. It was launched when post-war adjustments were by no means completed, and a stable market for the product assured. It was a huge speculation for which I have said the banks were not alone to blame. They, however, co-operated to make it possible." How can you reconcile that with the statement which you made to Mr. Woodsworth in

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regard to the superior knowledge of conditions possessed by the bank, and I would say the bank should possess all that superior knowledge. But they certainly did not show that they were possessed of it in advising farmers to go into the raising of beef cattle at that particular time; it was about as ill-judged a thing as could possibly have been indulged in to my way of thinking?—A. The answer to it is that even banks are not infallible. That is the answer. Within my own experience, I remember the plea that was made, perfectly, that the banks should assist the raising of cattle in Alberta. We had applications made to us for loans for that purpose. We surely never went out and invited people to borrow from us for the purpose of raising cattle. My own judgment led me to believe that it was a dangerous time in which to embark in the putting of money in cattle, the prices being so high, but I wrote to the greatest authority within my knowledge in the whole of the United States, asking him what the future of the cattle trade was, and his reply was in the affirmative, that there could not be any possible drop. Well, against my better judgment I agreed to loans made by the bank that I represent, and we have paid the bill.

Q. I want to say you may have paid a small part of the bill, but some of the poor men that borrowed the money to go into the cattle business have paid the bulk of it?—A. I don't think you are quite right there, Mr. Coote.

Q. I know of a case a year and a half ago where a man who had gone into the business largely at this time was forced by the bank to sell one hundred and fifty head of three-year-old steers in the fall of the year. Although he had eight hundred tons of hay he was forced by his bank to sell those steers, and they netted him about \$30 per head, and I know perfectly well they had cost him \$90 per head?—A. Very bad luck on him, was it not?

Q. The reason I am bringing these things to your attention is that I believe that you as President of the Canadian Bankers' Association have some powers, they may not be properly described as disciplinary powers; but still I believe you have considerable powers with some of the members of that Association, and it is for that reason I want to bring them particularly to your attention. Now, one other thing; you said that—

The CHAIRMAN: What disciplinary measures would you suggest, because your statement is incomplete. You did not complete your point?

Mr. COOTE: Mr. Chairman, maybe I am taking too long; I am trying to hurry, and perhaps that is the reason I am not making myself clear. On what point did I not—

The CHAIRMAN: You asked Sir Frederick, as President of the Bankers' Association, to exercise his disciplinary powers; that message is too general to carry home.

Mr. COOTE: When a bank has advanced the money, very freely advanced it, I am perfectly right in saying that at any rate. I would go farther and ask Sir Frederick to take the language that was actually used by the official of the bank; he tells how freely the money was loaned to these men—

The CHAIRMAN: I suppose in a word you mean that hereafter the bank should be very careful about making advances, and in the meantime they should be lenient in recovering payment of outstanding notes.

Mr. COOTE: If the banks go into partnership with a man to that extent of advising him to go into this business, and give him the money, they should stay with that man until such time as the industry has been able to come back, that that man should not be closed out, and all the assets that he had behind him when he went into this business taken to make up the loan. He was forced to take the loss; he had absolutely nothing else to do; the bank had a lien on the cattle.

WITNESS: I would like to say a word in reply to that. There may be cases,—you say you probably know of a case—where a borrower is forced to sell his cattle at a low price, which meant that his own capital was lost and doubtless some of the bank's money—all his own, perhaps, and a portion of the bank's money. But I can assure you in many cases within my own knowledge, and the witnesses that follow me will confirm my statement, that the banks have shown the utmost consideration to their customers throughout the length and breadth of Canada who are in trouble through slump in prices, either in the case of cattle raisers or merchants or manufacturers or dealers, the utmost consideration. My own bank is carrying, in the hope that the situation will turn around, many cattle dealers, and we will continue to carry them and see them through in their interests and in our interests and in the country's interests up to the point where the situation becomes hopeless; and when it becomes hopeless then it is good banking to straighten the thing out and clean up the debt.

Mr. COOTE: I am very glad indeed to hear those remarks, but in this particular case the bank I think took no loss whatever, but the man was practically broke, and it is not an isolated case.

WITNESS: There may be such a case; I could not dispute your statement, of course.

Mr. COOTE: Then the other question, that is, the banks were taking care of all the legitimate needs of the country, something to that effect. I want to give you a few words from a letter which I have here, I do not wish to quote the letter because the man would object, because he may be still dependent upon the banks at certain times. But he says that in his town where they have two banks, one bank is closed up and the other might as well close. They refused a small loan to a good careful farmer who does not owe a dollar except \$900 on his half section, and he has a good outfit clear, and he goes on in the letter to say, the result is going to be very serious as a lot of good farmers had not reserved anything out of last year's crop to carry them through this season. Some of them turned all their crop to the bank and now cannot get money to buy oats to put their crop in with. I am quite prepared to admit that there are many farmers, possibly some in that district, and this man admits himself, who are not in a position that the bank could give them credit under present conditions, but there are a lot of them who are entitled to credit I think, and I want you to realize the position we are in if we happen to live in a town where there is only one bank. It might be the same if there are two, but if there is one you understand that the bank manager is the czar in the financial world for all the people who live in that district. If he will not in his great wisdom grant them a little credit the case is pretty nearly hopeless.

WITNESS: Do you want me to speak to that?

Mr. COOTE: If you care to say anything.

WITNESS: I am very glad to say something. The answer to it is that there may be isolated cases such as you mention, but you surprise me, because the great trouble in Canada, especially in the western provinces, has been that we have loaned too much money, that we have lost too much money. That is the trouble, and I cannot conceive of any farmer who is a decent hard working man with a half-section on which he owes \$900 with good buildings and the ability to labour who cannot raise a loan of some sort or description from his banker. I cannot conceive of such a case, and you will believe me—you may not like me, but you do no doubt my word, do you?

Mr. COOTE: I hope I have not said anything or shown that I do not like you.

WITNESS: I will shake hands with you afterwards.

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MR. COOTE: I would be very glad if I had the opportunity of meeting you some time again to show you this letter in private and discuss these things more fully with you, but I think this committee is the place where these things should be aired.

WITNESS: Quite right.

THE CHAIRMAN: Mr. Coote was in his earlier days a banker, so he belongs to the profession.

By Mr. Coote:

Q. I am not asking any particular consideration on that account, but to show you that these conditions are not altogether a result of the particular conditions in which the country is in at this time. I could give you a case which happened in the year 1908 or 1907.—A. There are cases, I agree with you at once, there are isolated cases.

Q. I want to bring to your attention the point, which I think is a mistake, in regard to bank credits in Western Canada. You mentioned yourself that too much credit had been granted. I want you to realize when you make that statement that the bankers of Canada are responsible for that as much as the borrowers?—A. Yes, that is quite right.

Q. When you have created too much credit in the district and you have the people used to working on credit, that is for their seasonable requirements, and then suddenly say: "We will give you no credit whatever," have those people a chance? I think it was mentioned regarding the manner in which some banks in Western Canada have handled their clients, and are doing it to-day; but your idea of that is just a little bit too good in regard to the bank side of the case, and I do not wonder at that, because I know that you are quite a long way removed from the manager of the small branch.—A. There is no reason why I should not tell you that we reproved some of our own managers—in this case I am speaking entirely for the Bank of Montreal—some of our own country managers in the Northwest for going too much to the other extreme. There is no reason why I should not tell you; we have no secrets of that sort. We have loaned too freely in some cases, and then our managers have swung the other way, and they have been checked up and told that a sane middle course is the right one.

Q. Might I be permitted to ask another question?—A. Well, go ahead; I am feeling first rate.

Q. I feel, may be I will get into trouble with the rest of the Committee?—A. I think you are depriving this gathering of all the information you are going to get from Sir John Aird.

Q. I have been told that Sir John Aird is very good natured and that he will stay with us a little while. The fact I want to bring out here is this, Sir Frederick, that we should have some system of credit where a man, if he is entitled to \$1,000 credit in one year, has had that credit and paid it off, and comes back the next year with the same prospect, if he has not done anything in the meantime, to make himself obnoxious or objectionable, if he has not acquired the habit of playing poker, that he should be able to get that credit again?—A. I quite agree with you.

Q. That is something we have not got in Western Canada, and if we have to work under the present banking system, I would like to point out to you, seeing that you hold the position you do, that that is one of the things that is necessary and it is nothing more than what is absolutely fair.—A. We are in complete agreement, Mr. Coote.

Q. One other thing, in regard to the matter of production. You said, I think that when the manufacturers had produced plenty of the goods that may

[Sir Frederick Williams-Taylor.]

be sold, naturally it was only right for them to stop manufacturing. Now in regard to agricultural produce, the same thing I suppose would hold good, that there is a limit to the amount of agricultural produce which we can find buyers for?—A. I think it is different in the case of agricultural products, Mr. Good. There is a notable difference, because in the Western Provinces for instance, you produce the finest wheat in the world, for which there is a world-wide demand, and I personally hope the time will never come when you will produce too much wheat.

Q. Have you anything but hope behind that? Is your judgment to that effect?—A. I have no fear that the Northwest, or the Western Provinces rather will produce more wheat than they can sell in the world's markets. I have heard such theories expressed by some of your Western—I was going to say friends, I suppose they are friends, they are certainly good citizens, who believe that the West should go into mixed farming, cattle raising and so on, so as to diminish the quantity of wheat produced. I have no such fear myself personally.

Q. Do you consider that it is good business for us to raise wheat if it must be sold for less than the cost of production?—A. No, it is not.

Q. Is it a good thing then for this country to deliberately encourage the production of wheat, if we should anticipate that it must be sold for less than the cost of production?—A. It is bad business to produce anything that you cannot sell at a profit.

By Mr. Kellner:

Q. Mr. Chairman, I would like to refer the witness to the bank statement of February 28, and to the item in the fifth column of La Banque Nationale. The paid-up capital is given as \$2,936,000. The rest accounts for \$320,000. Total \$3,356,000. The notes in circulation \$4,319,970, or 128.5 per cent of the combined paid-up capital and rest account. Do you consider that an excessive circulation?—A. I did not follow you exactly. Will you tell me again exactly what you have told me now?

Q. Briefly it is this, the circulation is 128.5 of the paid-up capital and the rest account. Do you consider that an excessive circulation? Should they have that amount of notes in circulation?—A. The bank is only permitted to issue notes up to the amount of its capital, and for any excess of that they must deposit gold with the central gold reserve.

The CHAIRMAN: You have the statement, Mr. Kellner. What was in the central reserve to the credit of that bank?

Mr. KELLNER: They had \$1,500,000 in the central gold reserve.

The CHAIRMAN: Against which they could issue notes.

Sir JOHN AIRD: They could not have issued more notes, Mr. Kellner, than are legal under the Bank Act.

Mr. KELLNER: There is another point about that statement, their overdue debts. It is \$1,180,583. Now the overdue debts in the bank of which you are the president, and which has a paid-up capital of 27¼ millions, whereas this bank had less than three million, is a little less in excess of one million dollars. Do you consider that that is a sound basis that this bank is on, in view of that and several other statements that I will not trouble the Committee with?—A. In our combined opinion, overdue debts mean very little in a bank's statement. And our respectful suggestion to the Honourable the Minister of Finance is that this item might be omitted entirely. You see a debt may be overdue and yet be a perfectly good debt.

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Q. I would like to ask the witness if directors are able to borrow from banks individually through incorporated companies which they may control or be interested in.—A. Can a director of the bank borrow, not necessarily in his own name but in the name of a company of which he may be a director or of which he may have control?

Q. Yes.—A. There is no restriction.

Q. Then would the director be asked to indorse the loans of such incorporated companies, if he made a loan for one of those companies?—A. He might or might not; it would depend on the quality of the loan itself.

Q. Would those loans be on your bank books as loans to directors?—A. You mean if he did guarantee a loan?

Q. Yes.—A. Would the guarantee be included with his own direct loan?

Q. Yes.—A. I think not; no, that would not be included in the memorandum at the foot of the Government statement, but in the books of the bank it would appear; a record would be kept of the liability of the individual as apart from the liability of the corporation.

Q. Now are the securities hypothecated to the Government included in the assets of the bank?—A. You mean when a bank borrows from the Government?

Q. Yes, and you hypothecate the securities, are they still listed as assets of the bank?—A. Yes, they will continue to be listed. They will show on both sides. They would be in the shape of an asset among our investments and as a liability to the Government.

Q. Would you tell me what the security is upon bank legals?—A. Bank legals? Do you mean Government legals?

Q. I understood they were termed bank legals. It is a large Government note which I understand you use.—A. They are merely used between banks. It is the obligation of the Government of the Dominion of Canada with a certain amount of gold behind, as set forth in the statutes of the country.

Q. I think you probably misunderstand my question. I refer to what security the bank hypothecates to get possession of those legals. Is it the same as on an ordinary Dominion note?—A. If the Government makes a loan to a bank it makes that loan in the shape of Government notes.

Q. Do you get possession of those Government or bank legals in the same manner as you do ordinary Government notes?—A. Are you speaking now in the case of a loan from the Government to the bank?

Q. You understand I do not know how the bank gets possession of these bank legals at all, that is what I am trying to find out, by what method you get control of them.—A. It would come in the course of business as between banks. They might be deposited by the Government itself or they might represent a loan from the Government to the bank.

Q. And if they were deposited by the Government then it would simply be a loan to the bank.—A. I do not follow you there.

Q. It would be the Government making a loan to the bank?—A. They place them to their credit the same as if you were depositing money. The Government might place its own legal tenders to its own credit with any bank.

Q. And the bank in turn would deposit securities with the Government?—A. Ah, if the bank were borrowing, yes; if the bank were in turn borrowing from the Government.

Hon. Mr. FIELDING: Sir Frederick, I want to ask one general question touching the ability of the present banking system to serve what I may call for convenience, the Western interests. You have said that it is a common practice of the banks to advance money on 6 months' notes, which if renewed, would run on

[Sir Frederick Williams-Taylor.]

for two years or possibly more. Now is it understood when that advance is made on a 6 months' note, that it will be renewed? Or does the fear of non-renewal hang over the man for the next two years?—A. Not invariably, Mr. Fielding; but if it were a case of a farm loan against grain to be produced, or a cattle loan, that loan might be for six months or a year and ordinarily it is well understood by the banker and by the borrower that it is subject to renewal if the circumstances are such that the borrower is unable to repay.

Q. And they will be renewed?—A. They will be renewed.

Q. What I mean is, that six months' credit is very little good to a farmer in that transaction. If he knows it is going to be renewed and run on for two years, that is one thing. If it is going to hang over him with the prospect that it is not going to be renewed, that is a different condition.—A. I may say that almost invariably the farmer knows the note is subject to renewal.

Q. And will be renewed?—A. And will be renewed unless some adverse condition might arise.

Q. And therefore you think our banking system in that way adapts itself to the case of the farmer who needs a two years' loan.—A. I cannot conceive, Mr. Fielding, of any system that would furnish better facilities to Western Canada than the present banking system. It is the earnest desire of the banks to build up the West by credit. The banks are in active competition with each other for that purpose, and as I say, I cannot conceive of any system under which greater banking facilities could be afforded to the people of our three western provinces than the facilities that they enjoy at present.

By the Chairman:

Q. Is the Bank of Montreal at the present moment carrying substantial amounts—I do not want the figures mentioned—of agricultural loans, and that their first maturity was more than six months ago.—A. I am sorry to say we have loans, Mr. Chairman, that have been running for one, two, three, four and five years, in districts where the crops have been a failure, and where we are still carrying the farmer in the hope that he will eventually pull through with a good crop.

Q. And those would run into quite substantial amounts?—A. They would run I should say into millions, in our own case, and I am perfectly sure that I am correct in stating that every bank is in exactly the same position.

MR. SPEAKMAN: May I ask a question just to amplify what the Minister of Finance has asked a moment ago?

THE CHAIRMAN: Yes.

By Mr. Speakman:

Q. Is it not a fact Sir Frederick, that the renewal is absolutely subject to the discretion of the banks? That is there is no contract of any nature between the bank and its customer which would call for such renewal, therefore from time to time as the note expires, it is subject entirely to the discretion of the bank as to whether it will be renewed or not?—A. Yes.

Q. So that as a matter of fact the effect of failure to obtain renewal will hang over the farmer's head during that time, because the obligation of the bank only extends to the duration of the note itself, and at the expiration of the note he has to enter into a new contract at the discretion of the bank as to whether it shall be renewed or not.—A. Quite right, it is within the discretion of the bank, but I think the farmer's fears are groundless, because the farmer comes in and expects his note to be renewed without question as a general rule; and as a general rule it is renewed. There may be exceptions, Mr. Speakman. I am quite frank to admit that there may be exceptions.

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Q. I was merely going to say that that is simply a matter of opinion, which may be held on one side by the banks and on the other side by the customers.—A. You don't hear, Mr. Speakman, from the innumerable individuals in the west of Canada who have everything in the way of praise for the banks and nothing of criticism. It is the people who criticize that we hear from. Every bank gets letters from individuals in the West, who think they have been treated badly or have had a hard case, but we don't get any letters with encomiums in them, telling us what splendid banks we are and how well we have treated them, but we know they are numerous.

Q. I know many customers have very amicable arrangements with the bank at all times. I simply wanted to amplify the point brought out by the Minister of Finance, that there is no one absolutely secure that the renewal will be given. It is a fresh contract.—A. That is quite right, Mr. Speakman, there is no contract.

By Mr. Spencer:

Q. Referring to an answer that Sir Frederick gave to Mr. Ladner yesterday, I think he made the statement that the Government of Canada is more indebted to the Bank of Montreal than the Bank of Montreal to the Government of Canada. Would that be correct, sir?—A. I made that statement.

The CHAIRMAN: I suppose that is a casual remark and this Committee is not appointed to investigate the accuracy of it.

By Mr. Spencer:

Q. Do you think that is in the best interests of Canada?—A. I am not prepared, Mr. Spencer, to amplify the remarks. Criticism was made, directed to the fact that we are the bankers of the Government of the Dominion of Canada, and my retort to that was that as stated by you, and I am not prepared to amplify it. Our relations with the Government of Canada go back to 1867, to Confederation; and with the other Government that existed before that, back to 1817.

Mr. LADNER: Mr. Chairman, as a matter of privilege, I wish the Committee to know, and Sir Frederick also, that it was not by way of criticism at all that I made that remark.

The CHAIRMAN: I don't think you need worry. It was taken as a casual remark.

Mr. LADNER: Now, Mr. Chairman, there are too many casual remarks, and yesterday I was disposed to take a mental attitude of perfect goodwill. I do not think it is fair to put me in that position. I did not criticize the Bank of Montreal at all. I know the part in the financial structure that the Bank of Montreal plays, and I wish to correct Sir Frederick in that respect.

Sir FREDERICK WILLIAMS-TAYLOR: Mr. Ladner. I accept your correction. It may be that I am super-sensitive. I am just a little more particular about the reputation of the Bank of Montreal—

Mr. LADNER: Other people may be particular also.

Sir FREDERICK WILLIAMS-TAYLOR: But allow me to finish. I may be just a little more sensitive where the reputation and good name of the bank is concerned even than I am about my own. I have served my 45 years in the service of the bank, which I entered when I was 14½ years of age, and I am just a little bit sensitive; but I am quite willing to accept without question your statement that no criticism was intended. It may be that I was just a little bit thinskin on the subject.

The CHAIRMAN: I do not think anyone is open to censure and I think we might well pass on to something that is useful and informative.

[Sir Frederick Williams-Taylor.]

By Mr. Spencer:

Q. Mr. Chairman, in a further statement to Mr. Ladner, Sir Frederick mentioned that the Finance Act was passed in 1914; that it acted perfectly then, and that it is acting perfectly now. Is that correct.—A. Yes.

Q. Are you aware, Sir Frederick, that Mr. Bevington, in the outline of his plan this last week, was of the same opinion and only considered that the Finance Act should be confirmed, that it was one of the best ways that we could finance this country. Do you agree with that?—A. Am I aware of the fact that Mr. Bevington said what?

Q. Agreed with the same point?—A. No, I was not aware of that fact.

Q. That he was of the same opinion?—A. I am glad to hear that we agree on that point.

Q. You will notice of course that there is a little criticism in regard to the banking institutions of Canada. At the same time you will give us credit, Sir Frederick, for giving the banks credit for quite a few things that we considered they should receive credit for. I would like to ask this question: would you say that the excellence of the Canadian banking system is responsible for the present financial position of Canada?—A. The banking system of Canada is not responsible for the present unsatisfactory economic position of Canada.

Q. Then what or who would you say is responsible?—A. That is for you to decide. That is a pretty broad question and is too long a story; but I do say this, Mr. Spencer, that it would have been impossible for Canada to have progressed as she has progressed—Canada has progressed—in my opinion, with any other system than the system which has been in vogue in this country since 1867.

Q. I accept that as your opinion Sir Frederick, but you have not answered my question. I would consider that you would be in a far better position than myself to whom you have put the question, to answer as to who is responsible for the present financial position of Canada.

Mr. JACOBS: Mr. Chairman, are we going to sit here and listen to all this? To questions of this kind? A lot of time is being wasted.

The CHAIRMAN: I do not think such a question should be asked. That is my own opinion.

The WITNESS: I would like to answer your question, Mr. Spencer, but I do not think this is the place to do it.

By Mr. Spencer:

Q. One more question then. What did the Government pay for the gold bought in the fall of 1922, amounting to some \$62,000,000?

Mr. JACOBS: Better ask the Minister of Finance.

By Mr. Spencer:

Q. Or with what did the bank pay for their portion?—A. For the gold that was imported into Canada?

Q. Yes, by the Government of Canada for the banks. According to Green-shields' report our gold deposits were increased by 62 millions in September, 1922.—A. How much of that belonged to the banks?

Q. Nearly half of it. 24 millions I understand?—A. I cannot speak for the Government. It is not my place to do that. As regards the banks, what happened was that they called in their loans, in New York, and shipped the gold up to Canada, and that is all there is to it.

Q. You would not like to speak for the Government, considering you are head of the Government Bank?—A. No I would not.

[Sir Frederick Williams-Taylor.]

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The CHAIRMAN: It is not a Government bank.

Well, gentlemen, I am assuming that we may for the time discharge Sir Frederick. He will be available to the Committee next week if desired, for substantial reasons, by anybody. Sir John Aird will appear before the Committee at four o'clock this afternoon.

Before we disperse, Mr. Ladner yesterday, prior to his examination of Sir Frederick Williams-Taylor in connection with the Federal Reserve, and the proposal for a Federal Reserve Bank in Canada, asked me at the moment to have his proposal inserted in the record. I was not clear as to whether I had the right to do that or not.

Mr. LADNER: Mr. Chairman, that is not quite correct. What I did say was, I proposed to ask this witness and a number of others on the concrete proposition of a Federal Reserve Bank, in the particular form in which it is based. I wished to follow out those questions to bring out the information, and that for the information of the Committee, in order that they could intelligently follow the question and the points as applicable to Canada, and I proposed to file this as an Exhibit, thinking that perhaps it would be better to have it printed in the proceedings. I thought the Committee seemed to be quite unanimous in the idea. It is about four single space typewritten pages. That is what happened.

The CHAIRMAN: I see the point, but it was not of much assistance to us yesterday inasmuch as it was not read and not known to the Committee and perhaps we could not follow your questioning as clearly as we could have, had we known what was in it. Well, gentlemen, is it satisfactory to the Committee to have this statement appear in our records as an Exhibit? It is entitled: "A proposal for a Federal Reserve Bank of Canada; submitted by Mr. Ladner." Is that carried? Carried. (Filed as Exhibit No. 8, see page 93.) That is all then Gentlemen, until four o'clock.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING

FRIDAY, April 20, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: The Committee will be addressed this afternoon by Sir John Aird, the General Manager of the Canadian Bank of Commerce. The statement read yesterday by the Chairman of the Bankers' Association represented the view of the Bankers' Association, and I assume Sir John Aird does not want to make any general statement; but immediately he appears on the platform he will be available to the Committee. We will have to divide the time up as best we can between Mr. Irvine's resolution and the Bank Act. I will have to act as arbiter in the best way possible.

Mr. IRVINE: I was expecting a statement from Sir John.

Sir JOHN AIRD, General Manager of the Canadian Bank of Commerce, called, said:—

All I have to say is I am the Vice-President of the Canadian Bankers' Association, and I assume the responsibility for the statements that were made by Sir Frederick Williams-Taylor in that general statement which he read to you yesterday morning. If there are any further statements or information you would like, I would be very glad to answer your questions. I may say for the

[Sir Frederick Williams-Taylor.]

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general information of the committee, that my experience in the west has extended since 1882. I have lived there for many years, and I would ask the western members to feel that as the representative of the Canadian Bank of Commerce, a bank that has done more pioneer work in the west than any other bank in Canada, we speak with some authority. We would like you to feel that the banks as a whole have a great interest in the west, and that we have done a great deal to develop it, that anything of an adverse character which affects the Canadian banks in the west, affects us seriously just as much as it does the west. I would like to say that to you, and to feel that in the questions you may ask we have your sympathy. We do not profess to be infallible; we have made mistakes, so have you; and we will do our best to rectify them. We think we have the best Bank Act of any country in the world. We do not say it is so good that it cannot be improved; we are ready to listen to any improvements you may have to make.

The CHAIRMAN: Mr. Irvine, suppose we gave you the right of way.

Mr. IRVINE: I might have a few questions later, I would not like to take my chance now, if that is the only opportunity I would have, because I left my notes upstairs.

The CHAIRMAN: We will send somebody for them.

Mr. IRVINE: I will go and get them when I get through with this, and I will have another shot.

The CHAIRMAN: Yes.

By Mr. Irvine:

Q. Do I understand you are Vice-President of the Bankers' Association?
A. I am one of them.

Q. Are you also Vice-President of the American Bankers' Association?
A. I am for Canada in Canada; I am a member of the American Bankers' Association and Vice-President for Canada.

Q. And you are in substantial agreement with the statement which was read by Sir Frederick Taylor?

A. Practically so, the statement he read.

Q. One of his statements which I thought rather indefinite was that we had in Canada at the present time a sound currency, although he deprecated the fact later that it was not as sound seemingly as it might be. What in your opinion would constitute sound currency?

A. I think we have a sound currency today, because it is practically redeemable daily; that is the reason it is a sound currency.

Q. How is it redeemable daily? Could you give us a brief explanation of what you mean? A. You take bank notes, you take notes of the Canadian Bank of Commerce, they are circulated; you may have a few and you deposit them in your own bank to-day; the Canadian Bank of Commerce has to redeem those the next day in legal tender or gold.

Q. To whom? —A. To the bank that presents them. If the Bank of Montreal presents them to us we have to redeem them.

Q. You are only responsible for those that are presented by banks, to redeem them; if I present them you are not supposed to redeem them?—A. You can demand legal tender.

Q. But under the law you are not compelled at the present time to redeem them, are you; you may choose to do so, but you are not compelled to do it? —A. We are compelled to redeem our own notes in legal tender.

Q. You would include Dominion notes as legal tender?—A. Oh yes.

[Sir John Aird.]

APPENDIX No. 2

Q. Then a sound currency in your opinion, to bring it down to practical language, is that you may redeem your bank promises to pay in Dominion notes?—A. Yes, or gold.

Q. Then there is nothing in so far as you have been made acquainted with the proposal made here by another witness, so far as you can see there is nothing to prevent him redeeming his proposed notes in Dominion notes, the same as you are doing?—A. Another bank?

Q. Another banking system, such as was proposed by Mr. Bevington and criticized in the statement by the previous witness?—A. There is nothing to prevent any bank from presenting its notes to another bank and having them cleared by legal tender.

Q. At the present time?—A. Yes.

Q. That is not exactly what I mean. The previous witness made a criticism of the proposal which was made here by Mr. Bevington on the ground that it would not be sound currency, that it would lead to chaos and so forth. If the currency of the proposed bank was based on assets and redeemable in Dominion notes, would it not have exactly the same solidity or stability as the present banking system?—A. No, because Mr. Bevington's proposal is on an entirely different basis.

Q. What basis do you think it is on?—A. The proposal that the provinces and this bank shall have the power to issue notes.

Q. Against what?—A. Not against anything that I know of.

Q. That is where you have misunderstood the statement, if you will permit me suggesting that; he virtually means that these banks which he proposes to organize shall be empowered to issue notes on security similar to that on which your bank now issues notes, the paid-up capital of the provincial unit that he speaks of. Is not that about what you are doing now?—A. No, because our issue is a limited issue, and as I understand his proposal it is that these banks shall have unlimited power to issue notes.

Q. What is your limit now?—A. The limit of a bank is its paid-up capital, except in certain seasons. At certain seasons we are given power to increase that in order to take care of the movement of the crop, more particularly in the West. Now, if we go beyond that power to increase to that extent, then the government gives us power to issue further notes by the deposit of gold in the Central Gold Reserves Association.

Q. Would you tell us what that power is exactly now, what that limit is?—A. We can issue notes against the deposit of gold or legal tender in the Central Gold Reserve Association.

Q. That is all you can issue?—A. That is all; we have to deposit that security.

Q. How do you get possession of the legal tender?—A. We get it from the Receiver-General.

Q. Could the same or a similar course not be followed by the proposal of Mr. Bevington; could his issue not be limited in exactly the same way or a similar way to yours. If the government limits you, could not they limit Mr. Bevington?—A. Mr. Bevington's scheme, I don't think he would have the ability to manage it.

Q. You mean Mr. Bevington personally, or nobody?—A. Without the experience.

Q. That is a new criticism now. You are not criticising it now on the basis of being unsound currency; you say it would be a failure because Mr. Bevington could not operate it. That is a change of ground from the statement we were dealing with before. You might be right in that, of course; I cannot measure Mr. Bevington's ability, or any one else's, but so far as the basis of the thing is

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concerned that is what I am interested in. You do not see any reason why there could not be safe limits placed by the government of this country upon Mr. Bevington's proposal similar to that which are placed on you under the present banking system?—A. I think Mr. Bevington's proposal involves more than that; he is giving power to provinces to carry on banking and establish branches.

The CHAIRMAN: Would you let me put a question to explain the scheme and see if I can perhaps clear it up, or perhaps you can do it better.

Mr. IRVINE: Go ahead and put the question.

The CHAIRMAN: Do you mind?

Mr. IRVINE: No.

By the Chairman:

Q. Sir John, I was going to ask you a question anyway, and it will be necessary to put Mr. Bevington's scheme, as I understand it, first. He proposes the creation of local units that would be called associations, or banking credit associations; something like that. He does not care what you call them. The people of the community to be served would be the shareholders, that is in a general way; the capital would be nominal, ten or twenty thousand dollars, no right of issue of notes. Then he proposes the creation of a bank under a federal charter just as the Canadian Bank of Commerce was created, with a capital say of a million dollars, the capital of which is to be paid in by the provincial government and that government would have the right of note issue just like any present chartered bank. The third storey in his scheme is, that the provincial government would have the right to come to the Finance Department under the Finance Act and re-discount. Now, keeping these three facts in mind, what in the light of your experience and your judgment would be the sequence of events, if something like that were started—did I put it fairly?

Mr. BEVINGTON: I think so.

Mr. IRVINE: It is satisfactory to the proposer, and it is satisfactory to me. You have put the situation so that he understands the system which is proposed.

The CHAIRMAN: And I followed it up with the question to which perhaps we might get an answer—I asked him what in his judgment and in the light of his experience would be the sequence of events if such a banking system were put into operation to-morrow?—A. I don't think it would be successful.

Mr. IRVINE: That is your opinion, it would not be successful; but you are not prepared to give any more reasons?—A. No; I don't think it would be successful.

Q. You said just a moment ago that Mr. Bevington's scheme involved the Provincial Government in the organization. Are you aware that the Banking Act now would permit that without any further amendment, would permit the province to enter into a banking business?—A. In my opinion it is *ultra vires* of the powers of the province to enter into a banking business. I do not think they have the power under the Bank Act.

Q. One of the objections made by Sir Frederick was that this scheme of Mr. Bevington's would involve fiat money; would you briefly tell the Committee what fiat money is?—A. I am sorry Sir Frederick—I am sorry he is not here too—admitted that there was fiat money in this country. In my opinion there is not. So long as you have the safeguards in the issue of legal tender by the Government and Canadian bank notes that you have to-day I think you are perfectly safe, but if you remove those safeguards then you will have fiat money.

[Sir John Aird.]

APPENDIX No. 2

Q. There being no proposal to remove those safeguards to which you refer, Mr. Bevington's system would not be liable to the criticism that it was fiat money?—A. No, but Mr. Bevington's proposal, as I understand it, would give him unlimited power to issue notes.

Q. I think you have a misunderstanding there; there is no unlimited power. I think that the banks at the present time have unlimited power. When they desire to have more power they seem to be able to get it in that regard as the Finance Act would show, depending largely on the circumstances. Now, it was said by the previous witness in reply to a question which was put, and I will ask you the question this way: the banks last year, I think it was, purchased twenty-four million dollars worth of gold, did they not?—A. I would not think they purchased it; it came into their possession.

Q. May be they got a present of it?—A. No, they did not. I will explain that to you, how that came.

Q. That is what I would like.—A. I will give you our own case. We were one of the factors in bringing in gold to the country. We thought it was a good thing to do to the extent of seven or eight million dollars. In our case it was a pure accident; the exchange market between Canada and New York was flooded; certain American banks had to take care of debts they owed in Canada and it was cheaper for them to ship in gold than to buy exchange. We got the permission of the Honourable the Minister of Finance or his Department to accept the proposition on one condition. The bank made the condition that if the American banks wished to take that gold out of the country again they should have the right to do it. They have exercised the right since.

By Mr. Irvine:

Q. On demand to pay?—A. Yes, at least most of it; these are transactions that might occur every day.

By the Chairman:

Q. The rate of exchange might have been—— A. No, American exchange for a few days was at a discount.

Q. That is what I meant, the same thing.—A. The American banks took the opportunity and quite rightly so. We also on our own behalf brought in some gold as we wanted to strengthen our position, but the Minister of Finance was not so gracious in that respect; he said if you bring in gold we will keep it, which they did. That is how the gold increase was caused, and the Bank of Montreal practically did the same thing.

Q. The gold the Finance Minister got was purchased by the bank, or what arrangement did you make about that?—A. We called in our loans in New York or London and we paid the premium and the cost to bring it from New York to Canada.

Q. Then it was purchased by recalling your call loans in New York?—A. Yes.

Q. Do you recall the amount you had on call loans in say July, 1922?—A. No, I cannot recall; that is shown in the Government return.

Q. You had 160,000,000 on call loans in New York?—A. Our banks?

Q. The banks of Canada.—A. All the banks.

Q. Yes, 160,000,000. In January, 1923, there were 191,000,000 still on call loans.—A. In New York?

Q. Yes?—A. Yes.

Q. Would you explain how in the same year in which call loans increased from 169,000,000 to 191,000,000 the Canadian banks purchased \$24,000,000 worth of gold from the United States?—A. That is very easily explainable. The

[Sir John Aird.]

foreign deposits of the larger Canadian banks equal and sometimes exceed the amount of money we have out on call in New York and London. We have branches in South America and San Francisco, Seattle, Portland, and Mexico, London, England and other places and they fluctuate many millions sometimes in a day.

Q. Do I understand you have taken your call loans from one place and have put them in another place?—A. We place the money we get in Toronto, place it in Calgary or High River, just as it suits the requirements of the business of the country. That is one of the advantages of the Canadian banks system. We can transfer money from any one quarter to the other.

By the Chairman:

Q. Mobilized and de-mobilized quickly?—A. Yes, any time.

By Mr. Irvine:

Q. I am still at a loss to know how call loans can be increased by millions when depreciated by the extent of 24,000,000.—A. I quite understand you do not see that, but take banks like the Bank of Montreal and the Royal Bank like ourselves having offices in London, in New York and sometimes we have transactions in a day that run into 5, 10 and 15 million dollars. It may be on deposit to-day and probably was at the end of the month you spoke of.

Q. I understand most of the call loans are in New York of the Canadian banks.—A. New York and London, that is where we keep all our call loan business or what we call our second line of defence.

Q. Then you really purchase the gold by call loans from London rather than from New York?—A. Yes.

Q. That is all I want to ask for the moment, Mr. Chairman.

The CHAIRMAN: May I ask a question about the suppositious bank I created a moment ago. The local unit would make recommendation for loans to the provincial banks and presumably they would be long term loans?—A. Yes.

Q. If they were not how would your present—our present banking system—meet the necessities of the situation, what would happen, what is there against this system, outside of the question of the provincial unit being in the hands of the Government?—A. The great objection to these banks would be they are able to take deposits.

Q. Yes.—A. Well of course depositors have the unfortunate faculty of knocking at your door sometimes for their money and if you have all your money locked up in long-term loans as I judge Mr. Bevington's scheme is, you are going to get into trouble and you cannot pay your depositors.

By Mr. Irvine:

Q. In that connection what percentage of your deposits does the bank keep on hand for present emergencies?—A. We have fifty per cent,—we think fifty per cent is a safe percentage and then we have our liquid reserves. In liquid reserves the first line of defence is your gold and legal tender; your second line of defence is your security in the way of Government bonds, provincial and municipal that you can sell on the market; your third which might possibly be made the second and the one which I have made second may be made third, are call loans in Toronto, Montreal, New York and London. A bank that is on a safe basis should have anywhere from 40 to 60 per cent of this class of securities and cash. We think 50 per cent is fair. The Bank of Montreal have a little larger, being the Government bank; they have that percentage.

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By the Chairman:

Q. Well, then, you think from all you know of this scheme that the assets of the bank would be the same in long term security which could not be readily converted?—A. Yes.

By Mr. Hanson:

Q. What about this note issue being redeemable?—A. Assuming that we had a depressed time, business got poor again and there was no demand for these notes we presented to the bank and the only way they could redeem them would be calling their loans and as I say it would be an unfair thing to expect you could redeem some paper that is largely composed of farmers and cattlemen, you could not do it.

By Mr. Irvine:

Q. In the case of such a thing occurring in Mr. Bevington's scheme couldn't the Government do exactly what they did for you in 1919 when they passed the Finance Act?—A. In 1914, Finance Act. The Finance Act was passed for a special purpose; it was a war measure and the banks were allowed to use it for special purposes only, and that was for the movement of the crop through the crop season. Now you might have a depression in the West again but you would not have the securities to put up to the Government.

By the Chairman:

Q. That is securities you could quickly release?—A. Yes.

By Mr. Hanson:

Q. In your opinion do you think the period or the occasion which gave rise to the passing of the Finance Act has passed and that we should now resume specie payment?—A. I do not think the time has passed for the suspension of the Finance Act; I think it is one of the most important Acts that was ever introduced into Parliament and it provides the bank when there is pressure for moving the crop with the means of providing themselves with the necessary funds for short terms paying interest at 5 per cent; it is no advantage to the bank; there is no profit to the bank in borrowing the money at 5 per cent when you lend it out at 6, 7 or 8. You must remember it costs money to carry on a bank, salaries and stationery and rent and all that.

By the Chairman:

Q. Mr. Hanson's question was rather if you should resume gold payment?—A. Regarding the resumption of gold payment I think Canada could go on the gold basis, on the same basis we were before the war. I believe there is such a confidence in the banking system of Canada throughout the world that we would lose but very little gold if we went back to the condition that existed prior to 1914.

By Mr. Hanson:

Q. Why shouldn't we do it; get that confidence back?—A. The business in Canada is developing to such an extent. You say why shouldn't we go back?

Q. Yes.—A. As far as we are concerned we are ready to go back tomorrow and I do not think we will suffer for it. The people—the financial people of the world look upon the banking system of Canada as an outstandingly safe one. If you look over the experiences since 1867 you will find the depositors have not lost very much money. We have had one or two disasters; the shareholders have lost money, but I see no reason why Parliament should enact laws to protect the shareholders in banking any more than protect the shareholders in a milling company.

[Sir John Aird.]

By Mr. Good:

Q. Mr. Chairman, the witness I think stated just a moment ago, at least he left the impression on my mind, that the War Finance Act was for the purpose of allowing the banks to issue fifteen per cent above their authorized capital. If I misunderstood him I would like to be corrected?—A. That is an entirely different Act, sir.

Q. I think the records will have to be changed then, or the witness left an impression on the Committee that he did not mean to leave.

Hon. Mr. FIELDING: That is sometimes called the Excess Circulation Act.

By Mr. Good:

Q. I quite understand that, Mr. Fielding, but I just wish to call the attention of the witness to the distinct impression I got, that the War Finance Act was passed for the special purpose as he says to move the crops?—A. Yes.

Q. I would like to suggest to him that the War Finance Act was not passed for that particular purpose. That purpose had been looked after previously, by the allowance of this excess circulation. I have Sir Thomas White's pamphlet here, "The Story of Canada's War Finance" and he distinctly states on pages 8, 9 and 10, the effect of that War Finance Act, and it was, I submit, entirely different from that just stated by the witness. I know he does not intend to leave a wrong impression on the Committee, and I might read just a few sentences from this in order to make the matter plain.

The CHAIRMAN: There is no dispute about the purpose of the War Finance Act, Mr. Good.

Mr. GOOD: No, Mr. Chairman, but I think there ought to be a correction. We ought to understand that the purpose of the Act was to get over the difficulty of an expected run on the banks at that time. In fact Sir Thomas White speaks here of a man who went to the bank and tried to withdraw his deposit in gold. Of course I think it was a very wise provision; no one is objecting to the War Finance Act. It met a real difficulty at the time, but I want to suggest that the effect of the War Finance Act was not to provide an excess circulation for the crop moving period but to allow the bankers to pay their obligations in their own notes and to allow them also to get Dominion notes by the pledging of securities. That is entirely different. That is something they never had before. You will pardon me, Mr. Chairman, for simply making that matter plain.

SIR JOHN AIRD: I think what was in Sir Thomas' mind, was this, and I know pretty well what was in his mind as I happened to be on a Special Committee at the time.

Mr. GOOD: The witness I think may have forgotten just what transpired at that time, but I happened to read this just a short time ago. I have read it twice, so that it is a little fresher in my mind possibly than it is in his.

SIR JOHN AIRD: Let me correct you. I admit that it was for the purpose of the war, but it was also for the purpose of assisting the banks in the movement of the crop, because, if you will remember—and we anticipated it—Sir Thomas anticipated it—that you were going to have higher prices for all kinds of commodities in Canada, and then as they advanced you had to have power of borrowing against them. I think wheat went to \$2.82 did it not?

By Mr. Good:

Q. The only difference that was made so far as the excess circulation is concerned was in altering the date. I think it set it a month ahead from the first of September?—A. Yes.

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Q. To the 1st August or something like that? Now, Mr. Chairman, I want to proceed with some questions, if you will permit me. I think I understood the witness to state in opening that he endorsed all that was said in the document that was presented yesterday by Sir Frederick Williams-Taylor. Now I listened with a good deal of attention to that document and I took it that it contained and expressed a sweeping and utter condemnation of the scheme advanced by Mr. Bevington. Now I just would like the witness to express an opinion as to whether or not it is not possible that the person who drafted that document has somewhat at least, misunderstood the proposal that we have been discussing. Would the witness admit that, that there is a possibility of misunderstanding?—A. I don't think the bankers misunderstood the point.

Q. Well all I can say Mr. Chairman, is that I got a very different impression of the scheme from the impression that was in the mind of the writer with respect to the gold basis and with respect to depreciation, and I thought that it might be helpful if the witness would admit that there was a possibility of a misunderstanding. Now, Mr. Chairman, I have been listening here for some time to the discussion, and I am impressed with this, that we could get along much better if we could find some common ground. I think there is common ground, a lot of common ground for all of us, and if we could decide on that we could gradually reduce the area of controversey and concentrate on some of the points where there is difference of opinion. My purpose to-day, if I may ask a few questions, is to try to delimit the area of controversey, and I hoped that the witness would admit that there might possibly be a misunderstanding of this scheme on the part of the banks or on the part of those who drafted the documents and submitted them yesterday on behalf of the Canadian Bankers' Association. However, if he does not wish to admit that I cannot help it. Now I have a note here of a remark made by the witness a few moments ago. He did not think the provinces had the power to enter the banking business. I understood from the discussion we had some days ago that there was no particular legal difficulty in the way of any province becoming incorporated or becoming a shareholder in a bank to be practically operated by the province. Am I right, or are you right, Sir John?—A. I don't think they have the power under the Act and we have the highest legal authority for that.

Q. You think the Act would restrict the Provinces?—A. From carrying on a general banking business.

Q. That the Provinces could not become incorporated or could not become instrumental in securing incorporation of a bank to be operated by themselves?—A. Not to carry on a general banking business, not under the present Bank Act.

Q. Have you looked into this question then, whether or not it could become a majority shareholder, whether it could perhaps have two or three other shareholders, enough to form a Board of Directors, and become a majority shareholder, so that it would in effect control and operate the bank?—A. I think it would be a dangerous thing for a province to try. Two of the provinces if not three have already had experience in that and with rather disastrous results.

Q. Mr. Chairman, may I submit that that is utterly evading my question. I am trying to deal with the legal possibilities and not with the merits of a Provincial Bank.

Mr. STEVENS: May I be permitted, Mr Chairman; if Mr. Good will permit me to interrupt to this extent. I rise to a point of order if I have to. If we are going to have the examination of witnesses by the presentation of certain ideas, I claim then we had better debate this thing as we go along, which was something that was ruled out the other day by the committee, by yourself, Mr. Chairman. Now if I may add this, I would not give tuppence—I say

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this with all due regard to Sir John Aird—for John Aird's opinion on the legal point. If we want a legal opinion we will ask the Minister of Justice or some other person connected with the Government, who is able to give it to us on the constitutional legal ground. But I am interested in hearing Sir John Aird's opinion as a banker, on the system, and I submit, Mr. Chairman, that if we are going to pursue this form, I would like to ask the privilege of also debating the points as we go along, because it is certainly not fair to allow this to go on without the counter-view, if such a view might be held.

The CHAIRMAN: I was going to suggest to you, Mr. Good, but I did not like to interrupt you, that after all the legal difficulties are not important. This is not a proper committee to debate that, because if Canada decided that Mr. Bevington's scheme was a sound one, there would be ways found to cure legal difficulties even if we had to amend the constitution. So I think I would drop that.

Mr. GOOD: Mr. Chairman, I do not wish to delay a moment further in regard to that question. I hoped that the witness had made a mistake in expressing an opinion on the legal point involved. With regard to the point of order which Mr. Stevens has raised.

The CHAIRMAN: He has dropped that.

Mr. GOOD: I must admit, Mr. Chairman, that if anybody is guilty of argumentation in asking questions, or inferred argumentation, probably we are all guilty somewhat equally, Mr. Stevens included.

Mr. STEVENS: But when objection was taken to it, by my honourable friend the other day, I ceased.

The CHAIRMAN: Let us go on.

Mr. GOOD: Mr. Chairman, I think we have had a great deal of needless controversy, perhaps inevitably, over the question of fiat money. No one seems to understand what fiat money is. There is a general abhorrence of fiat money and we have been trying to get at what it is.

Mr. STEVENS: I thought you had written a book on it.

Mr. GOOD: Mr. Chairman, that remark is quite out of order.

The CHAIRMAN: Yes, I will rule that out of order.

Mr. GOOD: As a matter of fact I have not done any such thing.

Mr. RYCKMAN: Mr. Chairman, the honourable member says No one has yet understood it, although he has or has not written a book on it. I object to him speaking for the rest of us, because I have an idea that I understand what fiat money is.

The CHAIRMAN: Mr. Good will you proceed with your question.

Mr. GOOD: I will proceed as fast as I can Mr. Chairman, in spite of the interruptions. There is one point, Mr. Chairman, that I would like to discuss, if I may, with the witness or ask questions. It has to do with the resolution of Mr. Irvine, not with current banking practice to any great extent.

By Mr. Good:

Q. Is the witness familiar with what is known as the quantity theory of money?—A. The quantity theory. I cannot say that I have ever heard it referred to in that way.

Q. Is the witness familiar with it under another name, the equation of exchange?—A. I cannot say that I understand your question.

Q. Well then, let me put it in this way: pardon me, Mr. Chairman, for making an assertion. The quantity theory of money, stated incompletely, is this: that the price level, other things being equal, depends on the volume of

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money. I understand that economists are generally agreed upon the essential truthfulness to fact of that statement. Will the witness admit it, or is the witness prepared to express an opinion on that point?—A. No.

Q. He is not prepared to express an opinion?

The CHAIRMAN: The quantity theory is a hard thing to understand. I read an article on it, the other day, written by Irving Fisher, and I will have to go back over it again. Your definition was simple.

Mr. GOOD: Let me state now, Mr. Chairman, what I am trying to get at. The statement has been made on several occasions that the bankers generally are not responsible for price changes; and the assertion has been made that on the contrary, they are responsible for price changes. Now I think, Mr. Chairman, it would be rather useful to us if we could spend a little time in finding out how far they may be responsible for price changes.

The CHAIRMAN: Put your question then.

By Mr. Good:

Q. Do you think, speaking offhand, Sir John, that bankers are responsible for price changes, that is, changes in price levels?—A. No, I don't think they are at all. They have no power to make prices.

Q. Then, Mr. Chairman, I am going to assume for the purpose of asking some further questions, that we are agreed on the quantity theory of money; that other things being equal, that is the velocity of circulation, the volume of trade, that the price level does depend on the volume of money which is used for making exchanges. I do not wish to argue that point. It is rather involved. Now I want to ask the witness as to what kinds of money are in use at the present time in making exchanges of goods or services?—A. Making exchanges of goods.

Q. Goods or services, because we have sometimes commodities against commodities, and commodities against services and so on?—A. Then you have, commencing at the base metal, copper; silver, gold, and banknotes, and legal tender.

Q. Would you include with that the credit instruments arising out of the practice of loans and deposits, cheque books and so on. These function in the transfer as a medium of exchange?—A. They are mediums of credit and exchange.

Q. Now Mr. Chairman, I think we have an admission from Sir John that we have at the base, metal money; gold, silver, nickel, copper or whatever we may use. We have next our Dominion currency in paper notes, we have our bank notes, and we have our bank created credits. All of these may I take it, function as money, is that right, Sir John?—A. In exchange, yes.

Q. Now I have a brief statement here as to the quantity we have in Canada at the present time in these various different lines, just approximately. I think that we have about 193 millions of gold.—A. The Dominion and the banks?

Q. Yes, that is the total amount. Is there any of that in circulation?—A. Not a large amount of gold. Occasionally it circulates.

Q. Practically none?—A. An infinitesimal amount.

Q. So far as our commerce is concerned, we can eliminate that as money?—A. Yes, all the world is doing that now.

Q. In addition to that we have Dominion notes, and I think there are about 300 millions of Dominion notes available according to the last Bank statement, or at the end of the year about 170 millions in circulation, Dominion notes. May I assume that there is about 170 millions of Dominion notes operating as money?—A. No. Are you giving the totals from the Government return? Because a large amount of those legal tenders are held by the banks as part of the reserve. They are outstanding. I would not say they are in circulation.

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Q. Then the actual amount in circulation and functioning as money?—A. What is in circulation is acting as pocket money and carried in the tills of the merchants.

Q. There are apparently about 300 million bank notes that might be used, and in circulation about 150 millions. Is that approximately correct?—A. That might not be in actual circulation, because a lot of the bank notes are also held by you and all the other people in Canada and in the tills of merchants and manufacturers.

Q. I think what is out of the banks we might count in circulation, could we not?—A. Yes.

Q. The same as a man might carry some money in his pocket for a month and not use it; it would still be out in circulation and functioning. Then as far as bank created credits are concerned, our information is that we have about 17 hundred millions at the end of the last year?—A. Of what?

Q. Of bank created credits. Loans or deposits, whichever way you may look at it?—A. Yes.

Q. We might describe these as deposits subject to cheque?—A. No, I would not say they are all subject to cheque. Some are subject to notice.

Q. That is they are withdrawable by cheque after a certain amount of notice. At all events there is a very large sum.—A. I would like to correct you, that they are not all subject to cheques. Savings bank accounts, a large percentage is withdrawable in cash. Although it is done to some extent, we do not as a rule allow savings bank accounts the same checking privileges as the ordinary bank account.

Q. I quite understand that, but in practice, whether loans and deposits are payable by cheque or by the transfer of paper money it does not make very much difference, does it?—A. No.

Q. And so far as notice is concerned, if there was a month's notice or a week's notice, it would not make a great deal of difference?—A. Not in ordinary times. The point I wish to present is this, that out of a total of less than two billions of money in circulation, we have the greater part of it consisting of bank created credits, I think we had it admitted this morning, and we have had it admitted on several occasions, that loans are made at the discretion of the banks, is that right?—A. Yes.

Q. They can expand or contract?—A. We can refuse or authorize.

Q. Refuse or accord?—A. Through the Board of Directors or through a general manager or through a superintendent.

Q. Would you not agree, Sir John, that as bank credits are at the discretion of banks and as they constitute probably 80 or 90 per cent of the money functioning now in Canada for exchange, that the volume of money is to a large extent at the discretion of the banks?—A. It is at the disposal of the banks, certainly.

Q. Does that mean this, that the banks are able to increase or decrease the amount of money which is in operation in the country?—A. Of course the banks could if they said we won't make loans.

Q. They could contract. During the war or from the year 1916 up there was a very large expansion of loans in Canada, we had the figures submitted the other day?—A. Yes, I think there was.

Q. Since 1920 I think there has been a contraction?—A. Yes.

Q. This expansion and contraction, am I right in saying it is at the discretion of the banks?—A. No, it is controlled by the volume of business. If the business was not offered of course the banks could not force out circulation; it all depends on the development of business.

Q. A customer goes to a bank and says, "Here, I have a certain enterprise which I wish to prosecute, I want a loan for the purchase of raw material or

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for hiring of labour or what not"; the bank has it in its power, has it not, to either grant or refuse the loan?—A. Certainly.

Q. In that way surely you would admit, would you not, that the bank can affect either the increasing or decreasing the volume of money in a country?—A. By refusing to encourage unsound enterprise.

Q. Whatever may be, at their discretion they can increase or decrease credits?—A. Oh certainly.

Q. Therefore would you admit that as they can at their discretion increase or decrease credits which form the largest portion of our money, that they can therefore increase or decrease the volume of money operating in a country?—

A. They may, but sometimes it would be very unwise to do it.

Q. But they could do it?—A. Of course if they have got into unsound enterprises they will naturally decrease their loans.

Q. I am not trying to trap the witness into anything at all?—A. I don't think so.

Q. I want to clear the ground and see if we cannot get together on some point at least; I tried to bring him to this point, and I had hoped that he would agree with me, that the bankers have it in their power to increase or decrease the volume of money operating in a country, using money in the broad sense of these credit instruments?—A. I would not say it was in the power of the bank; it is within the power of the people who produce the business to come to the banks with the business, and if it is satisfactory naturally it expands the use of money; the banks do not create, the banks do not go into commercial business or manufacturing business.

Q. No, but they will not grant credits?—A. Yes, under certain conditions.

Q. Let me return to my previous case, where a man comes with a proposition to a bank and says, "Here is something that I think is a good thing, but I am handicapped for lack of funds; I want some money to go out into the market and buy raw material and labour to carry on this enterprise"; is it not in the discretion of the bank to say as to whether or not that loan shall be granted?—A. Certainly; and the banker will grant it or reject it according to the financial soundness of the proposition.

Q. According to his judgment as to the financial soundness of the proposition?—A. Yes.

Q. I think we are quite agreed so far; if he grants the credit there is an increase in the amount of money in the country; if he does not grant it there is no increase. If at any particular time the man comes and says, "I want another extension of my line of credit," and the bank refuses to grant him the extension, he has to liquidate something, sell off something, and repay his loan, and when he does that there is a contraction?—A. When he repays the loan naturally the bank's loans are reduced?

Q. I think we are agreed on this that the bankers have the power to increase or decrease the volume of money in the country?—A. The banker has the power to increase or decrease his loans.

Q. Is not that the same thing as increasing or decreasing the volume of money?—A. It would naturally increase the amount of money that was in circulation, or decrease it, of course.

Q. Would the witness not admit, Mr. Chairman, that granting the truth of the quantity theory, that the price varies directly as the quantity of money, other things being equal, that the bankers have it in their power to alter the price level of goods?—A. No, I would not agree to that. Your theory is that the banks use their power either to increase or decrease the price of commodities.

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Q. Not directly?—A. Yes, and the banks cannot do that, no matter what amount of money you have the prices of commodities are governed by the demand.

Q. I submit most emphatically that I did not state or imply that the banks directly fixed prices, but I do think that in this particular way through controlling the credits which operate as to money, that they have a power over the price level?—A. I don't think so.

Q. I would hope the witness would agree with me on that?—A. No.

The CHAIRMAN: Of course that is a matter of inference and you can argue that.

Mr. GOOD: Mr. Chairman, I cannot get any further; I was hoping we might agree so far.

The WITNESS: We cannot agree on that.

By Mr. Good:

Q. We have agreed, have we not, Sir John, up to this point that the bankers can increase or decrease credits, but you do not agree that they can thereby influence the price level, is that right?—A. Yes., that is a proper conclusion.

Q. I do not wish to take up too much time, but there is a further question which arises out of this—I may say that I wish to ask this same question of some of the economists when we get them here, their opinion on this very same question—would it be profitable to a bank to encourage people to go into debt if they could by demanding payment when prices were lower transfer the title of property from the original borrower to themselves?—A. I will answer that question in this way: it is not the business of a bank to encourage people to go into business. People create the business themselves and come to the bank. If the bank were to do as you suggest we would be into the manufacturing business, and we would be into the cattle business, the grain business, and all kinds of trades; that is not the function of a bank: that is where the risk comes of a bank getting into that.

Q. Is not a bank a virtual partner with a business man in carrying on his enterprise?—A. No, decidedly not. Sometimes we wish we were, but that is the danger. A bank gives a manufacturer or a miller or a cattle dealer or a farmer a large credit the bank gets a paltry return of six or seven per cent, or eight per cent in the case of a farmer; in some years I have seen a farmer make twenty-five and fifty per cent, and I have seen other people, merchants, manufacturers, make large profits, but the banks do not get any of that; we would like to sometimes; but on the other hand if we became partners, as you suggest, we might be in this position that we would have to assume very heavy losses, and in the cases of manufacturers and merchants during the last three or four years it would have put most of the banks out of business, because they have not made very much money.

Q. I used the word partner perhaps in a special sense?—A. We could not assume partnership with anybody.

Q. If a business man came to you as a banker and said, "Here, I have a proposition, I have my own intelligence, and a certain amount of capital, or a certain equipment, I want some money to go ahead with, and if I do not get the money under existing conditions I cannot go ahead; I am blocked"; if you give him the credit to go out in the market if you like, and buy labour, and raw materials and prosecute his enterprise, would you not in that sense at least be a partner with him in the enterprise?—A. We would not be a partner with him; we would help him and give him credit if his proposition was sound financially; but we could not allow it to be said that we were partners.

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Q. Would you admit this, that to a very large extent, banks can control industrial policy through granting or refusing credits to people who apply to them?—A. No, I do not think they could, because the competition for first class business is so keen among the banks that if our bank would not give it, they would go around the corner and get it, if it was a sound proposition.

Q. That hardly touches the question. The banks collectively, both individually and collectively, I suppose, have their ideas as to what are sound and what are unsound propositions?—A. They must be the sole judge.

Q. Speaking not of the individual bank, but of banks collectively, of what you might call the average opinion of bankers, do not the banks collectively determine very largely the industrial policy of a country?—A. Not by consultation.

Q. No, I did not wish to imply by consultation. Let me put the question a little differently. The bankers are accustomed, the head bankers are accustomed to associate together?—A. Very seldom; sometimes you would not think we were a very happy family if you had the privilege of attending some of the meetings.

Q. I would think, Mr. Chairman, that as most of the leading bankers of Canada reside in Toronto and Montreal, and as they have a Bankers' Association, they would get together at least in a social way occasionally, or in various ways, and discuss questions of the business policy of the future of Canada, and the condition of industry generally. I understand that these matters are subjects of inquiry and discussion at the shareholders' meetings; is not that right?—A. Yes, at the shareholders' meetings of the banks.

Q. Is it not possible that there will be a sort of a tacit agreement as to what is a good thing for this country among the bankers, and what is a bad thing, admitting there might be differences of opinion, and that the bankers might say for instance, just to put a case, that will make my meaning a little clearer, the future for such an industry looks pretty bad; don't you think we ought to restrict credit in that particular line? And they would discuss the matter, make up their particular minds that this particular thing ought or ought not to be encouraged, and after they had made up their mind would it not be in their power by either granting credits or refusing credits to influence our industrial policy?—A. I think you would find difficulty in getting them to agree, because business in Canada is so varied that it is unlikely that we would agree that one of our customers probably in the same line of business as a customer of the Bank of Montreal, had a wrong policy, and the policy of the customer of the Bank of Montreal was right, or vice versa; we could not say to the Bank of Montreal, you have to tell your customer to get out of that business.

By the Chairman:

Q. As a matter of fact the banking policy of the individual banks is determined by the executive of the bank?—A. Yes.

Q. And not by consultation with other banks?—A. No consultation at all.

Mr. GOOD: I did not wish to imply that there was any consultation, but I rather wished to imply this, that there was a likelihood of some general agreement on matters of occasional industrial policy.

The CHAIRMAN: The witness seems to deny that they agree.

Mr. GOOD: I do not wish to press it.

By Mr. Good:

Q. The day before yesterday a case was stated, I think by Mr. Bevington, if I recall rightly, where a number of farmers in one of the western provinces,

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was advanced money on horses. These farmers got into a difficult position and foreclosure proceedings were taken, and the horses were put up at auction and bought in by the bank at \$13 apiece, about 600 horses bought in at \$13 apiece by this particular Canadian bank. The horses were transferred to another part of the West and sold to another bunch of farmers at \$80 apiece, and the money advanced by the bank to the new purchasers?—A. The same bank?

Q. Yes, the same bank; what would you think of that proceeding?—A. It is pretty hard on the farmer.

Q. What is your opinion of the ethical character of that conduct?—A. Well, if it came to our knowledge, and I hope it is not our bank, I think we would dismiss the manager. If there is collusion no manager in our bank could live twenty-four hours. As I say we are not infallible. It might be a very good idea to have that case.

Mr. GOOD: It would be just as well.

The CHAIRMAN: I do not think the case should be referred to and conclusions reached unless the facts are here before us properly.

By Mr. Good:

Q. Just one or two other questions. The witness yesterday stated that the business of the banks in Western Canada was unprofitable. I would like the opinion of the witness as to how far there is a waste in the duplication of services throughout the West which would be responsible for the high cost of carrying on in that portion of Canada. One of the witnesses stated that in a particular town there were quite a number of bank premises on one street, of all of which the rent had to be paid for, or the upkeep expense on each one; and in his opinion one particular equipment was sufficient to handle all of the banks. Now I want to get at this as to whether or not the duplication of machinery, the multiplication of machinery in Western Canada may not be responsible for the expense of keeping up the service in that part of the country and therefore indirectly responsible for the high interest rates.—A. There are several reasons for that and I would ask the Chairman's permission to digress a little. We, the banks, admit that there are probably too many branch banks in the west but we do not admit altogether that it is the fault of the banks. We were one of the pioneer banks of the West; we were bankers for the Canadian Northern Railway Company at the time,—now the Canadian National—and we were requested by the Government in view of the progress of the Dominion to anticipate the extension of that system. We did; we went on from time to time and kept going on even before the railway. As we went on and the country developed as it did from 1898 to 1910 the population increased by probably a million and a half to two million people and naturally the other banks followed in time and districts were opened up looking forward to the continuance of the development which unfortunately came to an end with the beginning of the Great War. This is, apart altogether from banking, but it will probably answer your question. When the Great War broke out in 1914 there was no class of the community that responded to the call of the Empire as well as the banks either in men or money. In our case and I have no doubt it was the case with all the banks but more with our bank—we had a large number of employees in Canada, a larger number than any other bank—nearly forty-five hundred or five thousand, and fifty per cent of the effective force of our staff went to the war inside of the first three months on the understanding that if they were fortunate enough to come back they would be restored to the positions they held before they went to the war and they would get the same salaries they would have got if they had not gone to the war, including increases. Unfortunately for us we lost two hundred or three hundred men and we had a couple of hundred more

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incapacitated. We had to carry on the bank; what did we do? We took in temporary men and women—a fine lot of men and women too. We had fifteen hundred women. When the war ended we had twelve hundred men come back to our bank and we had to carry out our obligation and if we had not we could not continue in business. The question was what was the most economical way and most fair way to do. We did not want to open branches but we opened branches and put these men in Western Canada principally in the new districts. These men got their salaries increased and unfortunately we did duplicate branches, a great mistake in going into the new country, particularly in Northern Alberta and in the Peace River country. No doubt that added to the cost of operating. In addition we could not turn out the fifteen hundred men and women who stood by the bank during the war. We have still some of those on hand. It cost our bank in the last three or four years \$1,750,000 to take care of the returned men. We admit we have made mistakes in opening branches and we are trying to rectify that now but all of the mistakes were not on the part of the banks. It was the insistence of the Governments and the people of the West that they should get banking accommodation so we had to open branches in certain points. I think in some of the evidence given yesterday and the day before you spoke about branches being closed and branches being opened. Well we opened branches. If we closed them it would be an unfair thing to leave a community without the service, and that is why we keep them open.

By the Chairman:

Q. Whether they are profitable or not?—A. Yes, all the policy has been and I believe it has been the policy of the big banks, like the Royal banks and ourselves, we estimate it costs us every year one hundred thousand to one hundred and twenty-five thousand dollars in our bank for what we term pioneer banking to take care of the requirements of the people who go into the new country. The rates of interest were discussed yesterday and it was stated that the banks' charges were unusually heavy. We do not think they are. We have a large amount of money loaned out in Manitoba at 6, 6½, 7, 7½ and 8 per cent. The general rate varies between 6, 7 and 8. In some of the newer districts it runs as high as nine and I wouldn't be surprised occasionally if you found that we charged 10 and the reason is this, we send young men into a new country like the Peace River or Northern Alberta and it costs more to keep him there, costs more for clothing—if a married man, more for rent and fuel. He has to have a coon skin coat and those are all things that add to the cost particularly in the West. As the West grows up money will become cheaper. It has become a great deal cheaper in the last few years and during the next ten years we will have cheaper money in the West particularly if we have good crops. You say the banks are blamed; it was suggested yesterday the banks were blamed for the fall in prices and depression in business. Now I do not think they should be blamed. Alberta has been particularly unfortunate—we are all sorry about it, but the reason is not attributable to the banks; the real reason is Alberta unfortunately did not produce a good crop. If I may quote you from my address of last January, I will give you the value of the crops in Alberta for 1920, \$204,290,000; in 1921, \$82,780,000; in 1922, \$92,369,000. You cannot say the banks are responsible for that.

Mr. GOOD: Pardon me a moment, if you will put that in bushels I think the comparison would be a little fairer would it not? Make allowance for the price differences in the two years.

The WITNESS: I do not know that I have the bushels here—I haven't the bushels, that is the dollar value and that is what pays your debts. That is the trouble with Alberta.

[Sir John Aird.]

By Mr. Coote:

Q. If you will be kind enough to state what percentage was due to the difference in prices per bushel and how much due to the shortage in yield?—A. I think the prices were all pretty high; they commenced to drop in 1920, I think. In 1921 they kept dropping and into the beginning of 1922. They took a sudden drop, a quick drop to a dollar in Alberta inside of three months but that does not affect these figures very much.

Mr. GOOD: May I pursue this matter a little bit further about the branch banks.

The CHAIRMAN: If Sir John is finished.

By Mr. Good:

Q. Would it be possible for the Canadian Bankers' Association to give us some approximate idea of the savings that could be affected in operating costs if there was no competition between the banks, say in Western Canada, if you could eliminate the condition where you have four or five banks in the same town, each with an office. I think it would be very suitable and very useful?—A. It would be very difficult to do that; it will cure itself in two years we think, after the banks have taken care of the war situation and the aftermath of the war.

Q. Would there be a disposition for the banks to agree among themselves in a particular place where there was not room for more banks; that would be having the Bank of Montreal in one town and another town the Royal Bank.

Mr. STEVENS: On the principle of a church union.

The CHAIRMAN: I doubt if the Deity Himself could agree which banks would be eliminated.

By Mr. Good:

Q. Unless we are going to have the elimination of a duplicating service how is the condition to right itself in a couple of years?—A. The banks are getting a little wisdom and as I say we are trying to remedy the situation and we think gradually it will right itself; quite a few branches have been closed. The banks have had to do it; they have not been making profit. They have been making very much smaller profits in comparison to their losses.

Q. Are Western profits sufficient for banks operating generally to carry on?—A. In the last revision, ten years ago I happened to be going through the mill then. The proportion of loans was about three to one of deposits, the proportion of loans to-day to deposits is about two to one. That indicates the West is growing richer and I think in another ten years they will balance very well if we have good crops. We have faith in the West and we think we have more faith than some of the gentlemen from Alberta. Alberta is a great province. In addition to the shortage in the crops you have the cattle industry. We think there is no country in the world, either Argentina or the United States—Iowa is a great state for cattle—that can produce the cattle that are produced in Alberta. Alberta is a wonderful place with just the right kind of grass and the waters seem to be sweeter than any we know of for the production of the best cattle in the world and the people in England will tell you the best cattle come from Alberta. I remember in 1898 I was offered cattle, the very best that were selling in Alberta, for 2½ cents per pound. I could have bought them and made a lot of money out of them. It is coming back; cattle are going to get good again. You asked Sir Frederick a question this morning what was the cause of the drop in the price of cattle. He gave you one answer; the real cause is the Fordney tariff, that is the real cause but it has been corrected to a certain extent by the removal of the embargo by Great Britain. In 1898 and 1899 we

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had large shipments of cattle from Alberta to Great Britain and it will come again and we hope the Alberta people will not become despondent as to the soil and the richness of the grass and water in that Province.

By the Chairman:

Q. Is the Canadian bank of Commerce in the West standing behind the men who were unfortunate in loans?—A. I can say this and say it after investigation, that we have conducted a policy which we think has been entirely in the interest of the farmer in the West. We have staked the farmer in the West, particularly in Southern Saskatchewan and Southern Alberta for one, two three and four years. We have confidence he will still come back. We have advanced many millions of dollars; we think he will come back and we staked him. If we had not staked him we would have been hundreds of thousands of dollars ahead. The function of the banks is not only to make profit; it is also for the general good of the community and that is what we are trying to do. That is what I would like the members of the West to feel.

By Mr. Good:

Q. Referring to the same point again, I would like to submit to you that this is a matter on which we might need some data as to the possible reductions in the expense of operating the bank services in the West?—A. I would suggest Mr. Good that you get in touch with Mr. Ross, the Secretary of the Association. Anything we can do to help reduce the cost of money in the West you will find us only too ready because it will help the farmer.

Mr. Good: May I request, Mr. Chairman, that we get what information is available; if the Western farmer is up against eight, ten and twelve per cent for a year?—A. He is not. Let me correct you; the Western farmer is not up against nine and ten per cent. The percentage of money that is loaned out at that rate is an infinitesimal fraction. We have lots of money in the West; in Manitoba for the gilt-edged farmer at 6, 7, 7½ and 8 per cent, and the prevailing rate for 95 per cent of the loans in our banks is 8 per cent, and in addition our officers' pension fund, which amounts to upwards of six millions of dollars, is invested in Western farm mortgages. That is the confidence we have in that country. I do not think it is fair to say it costs 9 and 10 per cent.

By Mr. Good:

Q. We had a number of notes submitted this morning and they may be quite exceptional. I would ask, Mr. Chairman, that you get information along that line. I have some other questions, but perhaps I could take them up again.

By Mr. Carmichael:

Q. I would like to be clear on one point. I was pleased to hear the witness state that the bank was willing to do anything to help Western agriculture. Now supposing the spirit of section 91 were lived up to in regard to the interest rate chargeable and the bank—you represent the Bank of Commerce—charge no more than 7 per cent on any loan, what difference would that make in the dividends declared by your particular bank?—A. I think we should have to cut our dividends by 3 per cent and this would represent a loss of four or five hundred thousand dollars a year. We could not afford to do it at present.

Q. I understand the witness to say, Mr. Chairman, that practically 95 per cent of the loans are made at 5, 6 or 7 per cent?—A. I said 8 per cent.

Q. Eight per cent and under. Then the bulk of the loans presumably is made at seven per cent or under?—A. Oh, no. I say the bulk would be made at eight. I say we have a large amount out at six, seven, and seven and a half,

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but the bulk would be made at eight because we could not carry on business otherwise.

Q. I think, if I may say so, that that is the cause of a lot of dissatisfaction in the West to-day. The interest rate that the West is called upon to pay in many cases is nine per cent. If the farmer is not in good financial circumstances he is required to pay nine. If he is in very good shape, he gets money at eight. I know a corporation in my own district that is assessed at between three and four million dollars, that to-day is paying $7\frac{1}{2}$ per cent interest. That is why I think if the reduction in dividends may not be too great to the bank, by living up to the spirit of section 91, a cause of dissatisfaction would be removed, and a long step towards prosperity in the West would be taken.—A. I think the real prosperity in the West could only come by improvement in the crops and development that way, and when you are able to provide more of the money required from your own resources. Naturally, the money that you do not produce yourselves must come from the East, and it costs more to carry on business in the West in the shape of salaries, in the shape of rent, fuel and everything like that, fully 25 to 40 and 50 per cent according to the district. Now if you are able to do that and provide us with money, I think it will come within the next ten years.

Q. You think if the rate were maintained at no more than seven per cent your dividends would be decreased?—A. I think you will find that a very large number of the banks would close up; they could not make money.

Q. As a matter of fact the bank you represent, during the past year declared four quarterly dividends of three per cent each plus a bonus of two per cent?—A. No; one per cent.

Q. That makes 13 per cent on the paid-up capital.—A. But not on the shareholders' money. It is a return to the shareholders of between six and seven per cent. That is not unfair.

Q. Somewhere around seven per cent of actual dividends on the paid-up value of the shares?—A. It is a fraction between six and seven per cent. That is not an unfair thing.

Q. That is a point I wish to get at. If the interest rate were kept strictly at seven per cent or below, you think your dividends would have to decrease by three per cent?—A. We would withdraw from a great many places in the West; we could not make money, because our margin of profit at small branches is very narrow, and being cut narrower every day by the action of provincial Governments in introducing iniquitous legislation in granting exemptions. I think they are realizing that now, and that some of this iniquitous legislation is being repealed. I know of cases where first mortgages held by companies in the East have been wiped out by some of that iniquitous legislation. Again the Government are going into competition with us in opening banks. They pay a higher rate for deposits than we do. Well, we cannot do business if the provincial Governments take our deposits. We either have to let them go or pay a higher rate. If we have to pay a higher rate for deposits we have to charge a higher rate for discount and interest. One statement I would like to correct, if I may, Mr. Chairman?

The CHAIRMAN: Yes.

A. That is in regard to the rate of interest that we have a right to collect, seven per cent. Of course we do charge discount, and I think we are justified in doing that for the reasons I have explained, and also that it is legal to do so under the Act, and so long as the borrowers understand it. I think generally most bank managers make it known to the borrower that that is the condition, and I don't think that is unfair. Now an inference was drawn yester-

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day that that was not legal. It is legal that we can discount and it is authorized by the Act, and it has been sustained by the Privy Council in England.

By Mr. Carmichael:

Q. I agree with you that it is legal if the contracting parties agree, but in the case where a loan was made at seven per cent?—A. Then you can only collect seven per cent after it is due.

Q. And if the loan runs over and is not retired at the end of the year and the bank charges in the following year seven and one-half per cent because the other contracting party cannot retire the loan, then that evidently is taking an undue advantage?—A. It is a question of agreement and arrangement. I don't think it is taking an unfair advantage, the value of money might have gone up.

Q. That is the position I refer to that is prevailing at the present time, and the corporation I refer to is paying $7\frac{1}{2}$ per cent?—A. Well, it might be unfair. It all depends on the circumstances of the case, but I think you will find the disposition of the banks has not been to increase the rates in the West.

By the Chairman:

Q. Sir John, I would like to ask you whether or not, in your judgment, there is room or necessity in the West for some credit or loaning institution which would give farmers long term loans on commodities?—A. I think the present system of the banks takes care of the situation, and the loan companies that are in existence are quite sufficient at the present time. I do not say that with the development of the country, if it grows to 15 or 20 million people, but what something better may have to be provided, and I think the banks will work with you on that, but at the present time it would be an expensive thing to do, very expensive.

The CHAIRMAN: Mr. Ladner. We have only fifteen minutes left, gentlemen, and I hope the questions will be short and to the point.

MR. LADNER: Will the witness be here again?

SIR JOHN AIRD: Are you going to sit to-morrow? I will be here to-morrow.

MR. LADNER: Sir John Aird is quite an important witness to the Committee. I do not know whether others are concerned with questions.

SIR JOHN AIRD: I could attend to-night if you like, or to-morrow morning. I am here for three days, but of course a General Manager likes to be on deck at Head Office.

The CHAIRMAN: I am quite willing to sit to-night. I do not know whether that is suitable to the members of the Committee or not. Go on then, Mr. Ladner, and get your questions off quickly. Sir John was here yesterday and heard your statement, so that will help you out.

MR. LADNER: I made no statement yesterday. I asked questions merely on certain points.

SIR JOHN AIRD: You filed an exhibit, did you not?

By Mr. Ladner:

Q. I did. Have you read that?—A. Yes, and I heard the discussion on it.

Q. What is your opinion as to the wisdom of creating a Federal Reserve Bank along the lines outlined in the proposal which was filed?—A. I think I answered that just now. I don't think the time has arrived for that. I think that if this country develops and we get the population the time will come when we will need greater banking facilities, either by the present banks increasing their capital, or by the establishment of some such bank on the lines you suggest, but I think it is not advisable at the present time because it would be a great cost and risky.

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Q. Do you think there is sufficient banking capital, that is unimpaired capital, available capital now in Canada for the purpose of the business and commerce of the country?—A. So far as the banks are concerned, there is a superabundance of capital at the present time. At the present time I could go to the Honourable the Minister of Finance and ask him for 125 million dollars on the securities I could give him under the Bank Act, and I think the Bank of Montreal and the Royal Bank could do the same.

Q. You would be a debtor to the Government?—A. I would, but it would be developing the country, if the merchants, manufacturers and farmers had satisfactory business to offer, that is the way in which it could be developed.

Q. We are not at one, Sir John. Don't you think the actual capital has, or the shareholders have, which is available, has some relationship to the extent of the banking operations that can be carried on, in view of the possibility of depression and so on?—A. Yes, it has to some extent but there is no shortage at the present time. I say there is a superabundance of money in Canada just now.

Q. In 1904, which I am told was a normal year, there were 80 millions of capital in all the banks, and in 1923, it had arisen to 125 million?—A. Yes.

Q. That is about 50 millions increase. But deposits I understand have increased about four times; and bank clearings indicating the volume of business have increased 18 or 17 times. Now in the event that Canada is on the eve of an increasing business and prosperity, don't you think that a greater elasticity will be advantageous?—A. If the prosperity were to come and we hope it will come, the Minister of Finance has the power at any time under the Act but we think as bankers that the situation is well met now by the existing banks and any further increase in capital is not now required. We think that it will come. We hope it will come.

Q. Sir John, can you agree with me that the probabilities of further banks starting up with new capital are slight now or during the next two or three years?—A. I don't think there is much inducement to them.

Q. With the restricting legislation and one thing or another there is not much temptation to put a new enterprise against the existing institutions in the banking field?—A. No.

Q. Now in the absence of an increase in capital do you not think it wise, I don't say this year but soon, to create the machinery for providing greater stability to finance through a Federal Reserve Bank as outlined in this proposal?—A. I do not think it is necessary at present and it can be done at any session of Parliament if the Minister of Finance thinks it wise, but I don't think it is necessary at the present time.

Q. In your opinion do you think that re-discounting facilities in the way in which the Act works out, of the Department of Finance, are sufficient for banking operations?—A. Absolutely. We took care of that situation during the war. We loaned the Government hundreds of millions of dollars. We collected for them subscriptions for bonds, I think for nearly two billions.

Q. Do you think a Federal Reserve Bank would serve any purpose in international trade by providing credit facilities like the Federal Reserve Board does under the Bank of England?—A. I don't think you would have as good facilities as you have now for foreign credits, that you have with the great banks in England and in New York, and all over the world. You would get better terms from them. That is demonstrated from the fact that the Federal Reserve Bank of the United States does not open branches in foreign countries. They use the banks of the foreign countries.

Q. Do you not think it would be wise that some body, either a Federal Reserve Board or the Department of Finance should have certain disciplinary powers over the operations of the banks.—A. The Bankers' Association have disciplinary powers over the banks.

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Q. No, some body like the Federal Reserve Board or the Department of Finance, with regulating powers.—A. The objection to that is that you throw a responsibility upon the Government which I think a Government should not assume.

Q. Would you not agree with me that the keystone of the arch is that control?—A. You would not get any Finance Minister to accept the job.

Q. Would you not agree, Sir John, that in the keystone of the arch of finance in this country that the Government does actually take now, that it would be better if the banking operations were divorced from the Government altogether into a separate corporate body, under the control largely of bankers who have that responsibility and have interests to serve as well as the public interests?—A. That is a debatable question.

Q. That is true, it is debatable; you would not care to express an opinion on it?—A. I don't think it is necessary at the present time, and I have not studied it sufficiently because I don't think it is necessary just now.

Q. I am told that with respect to the Merchants Bank of Canada—A. That is a pretty sore spot.

Q. Yes, no doubt it is, but we have an actual case there Sir John which may serve as a lesson for the future. I am told that if there had been disciplinary powers of a larger measure in the Finance Department, that the bank having issued large loans, some eight or ten millions of notes we learned yesterday, that they would have been able to ascertain the purposes of those loans and in that way conserved a large amount of capital to the shareholders, having found out what was the reason. What would you say about that?—A. No, you cannot throw that responsibility on the Finance Department.

Q. I am not saying that.—A. I am probably going to say something that some of our bankers do not agree with me on, particularly our friends in Montreal. From my point of view, a great bank like the Merchants' Bank of Canada, which was not insolvent, should not have been allowed to pass out of existence. (Hear, hear.)

Q. That is an opinion of a great many other people too?—A. I think it should have been saved to the country.

Q. Now the question I asked you a while ago was not any reflection on the Finance Department at all?—A. No, I don't think you can blame the Finance Department at all for it, but the blame rests on the management.

Q. Yes, Sir John, but is it not a fact that there are certain high lights in banking operations, where a skilled banker could detect that something was wrong if he had the opportunity and authority to ask a few questions from the manager, when they came to him for a loan for example, before a Federal Board or the Government? Do you understand the question?—A. No, I cannot fathom it.

Q. Are there not certain signs by which skilled bankers are able to detect when there is something wrong in connection with a bank borrowing money from the Dominion Government? Take the Merchants' Bank, they came there and pledged their securities or note issues when other banks, I am told did not think it necessary under the trade conditions?—A. Oh you might by instinct know, but it would be a dangerous thing for another bank to say because such and such a bank is borrowing from the Finance Department, that it was in a weak condition financially. They might have said that of our institution, and I think we were probably the biggest borrowers under the Finance Act, but they would have been very far astray.

Q. Supposing the Finance Department or a Federal Reserve Bank had the authority when they see how you pledge your securities and take your note, to ask what is the reason you want this money at this time when other banks are

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not taking the same action, and they could make you say, I have a big grain transaction in the West, or exactly the purpose for which it was wanted. In the case of the Merchants' Bank it would have been ascertained what was wrong, the notes would have been refused, and the capital conserved, and perhaps other ways of working out their troubles brought about?—A. Knowing the management, I do not think we would have believed the statement as to the condition in which they were. I do not wish to reflect on the management, it would have been a very difficult thing.

Mr. LADNER: Now, Mr. Chairman, I cannot ask any more questions than that, to ask Sir John's opinion. I have here some figures that are germane to this, and are quite important, which I will file, showing liabilities to the public of all the banks as at the 31st December, 1922, and then at the end of each year 1904, 1908, 1912, 1916 and 1920.

The CHAIRMAN: Who are your figures compiled by?

Mr. LADNER: They were compiled, some of them, most of them, in the office of the Deputy Minister of Finance. Some of them worked out in the library by an expert. It is only a question of taking the bank returns and adding the figures.

The CHAIRMAN: We want to know first whether they are correct, and in the next, whether it is important.

Mr. LADNER: Yes it is important.

The CHAIRMAN: Then we will take your word for it.

Mr. LADNER: There is one showing the legal authorities specifying the ones which are used, of the banks during these same periods of time.

The CHAIRMAN: Prepared by the Finance Department?

Mr. LADNER: Most of it. I added on some other years.

The CHAIRMAN: The Finance Department will prepare for any member almost any statement of that nature which is required.

Mr. LADNER: I will file them and they may be checked over.

The CHAIRMAN: Now, Mr. Hanson.

By Mr. Hanson:

Q. I would like to say to Sir John that I am from the East, and not the West, but as far as I can gather, there is a grievance in the West, particularly in the province of Alberta, over what is alleged to be a violation of section 91 of the Act, in charging them more than seven per cent. You have made out a very strong case for charging more than seven per cent, with which I quite agree, but would it not be better and would it not remove a grievance that these people have, if the maximum limit was raised to eight per cent, and then the banks lived up to that, and did not charge more. Could you live under those conditions?—A. In the newer countries we could not. Take the Yukon. When we went in there some twenty years ago, we were accused of charging exorbitant rates, twenty and twenty-five per cent. We defended that on the grounds of cost. It cost our men \$2 for an order of ham and eggs, or \$2.50 for beefsteak, and \$125 a ton for coke to keep them warm and enable them to carry on business in the office. It is all governed by the actual cost in the district in which you are in business. If you restrict it to certain districts at that it might be done.

Q. You will recognize, I think, that there is a grievance. It is commented on by Professor MacGibbon in his report.—A. I do not agree with all that Professor MacGibbon says.

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Q. Perhaps not, but I think you will agree with this, and I think if you will listen to some of the members for any considerable length of time around this House, that they have grievances that they are not backward about stating.—A. I realize that they have and I don't deny that they have grounds for some of them.

Q. With respect to a matter like this, is it not desirable if possible to remove that grievance, so that you may have a happy and contented people?—A. Yes, I think it is a question to consider.

Q. Don't you think the banks ought to apply their energy towards removing grievances of this character which after all are not insurmountable by any means?—A. I think I said at the opening of my remarks that anything we can do to remove grievances and to help the West, we are ready to do it, and will be very glad to talk it over with the Honourable Minister of Finance.

By the Chairman:

Q. Have you anything to say about the amendments to the Bill, the new sections, Sir John?—A. I was hoping that some of the gentlemen would discuss them to-day. There are a few things, I think Sir Frederick went into them.

By Mr. Spencer:

Q. I will just take up one minute if I may. Sir John mentioned that the banks were having to meet competition because the governments were going into the business. It will be admitted, I think, that all governments are conservative in this respect, as responsibility leads to conservatism, and that there must be a demand on those governments to go into that business, that their people are asking for better services. Do you not realize that?—A. No, because you are starting on a wrong basis in the first place. You are going to deprive the banks of their deposits at higher rates, and you are asking us to reduce our rates of discount. As I said before, if you are going to do that kind of thing, then you are not going to get cheaper money.

Q. It is not the interest only, and I appreciate very much Mr. Hanson's remarks in regard to the West, because he thought he had put his finger on a sore spot, but it is one of them only. We have heard a good deal of the eight and nine per cent, but it is not per cent per annum, it is per cent every four months as far as agriculture goes.—A. No, it is per annum, payable in three, four, five or six months, according to the tenor of the note. But that is an infinitesimal amount.

Q. But it is compound interest?—A. On \$100 it does not amount to anything.

Q. If a bank discounts, I think I am safe in saying, and we allow for the bankers' discount which is taken off the note before the man gets the money, and then compounded every three months it will very soon go to ten per cent. One other point, and I think this is the greatest grievance, is the absolute uncertainty of renewal, particularly in regard to agriculture. I don't know very much about it in commercial business, but in regard to agriculture what has created the great discontent in the West, and you will admit there is a very great deal of discontent, is the absolute uncertainty of renewal of loans?—A. I think you are exaggerating that. When a farmer comes in at the beginning of a season, it is generally understood that the bank will renew his paper at least until such time as his crop in the course of six, eight or nine months, is marketed, and if he does not wish to sell that crop, or if his cattle have not matured, with the ordinary bank manager he has not any difficulty in renewing. Not as a rule, if he is a decent honest farmer and has a fairly good stock. And as I said a little while ago we have staked the West for the last three or four

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years in the face of short crops, and we have millions of dollars on our books to-day that have been running for three, four and five years, and it is the same condition with all the great banks. I think that is the best answer to your question, because I don't agree with you.

Q. I am speaking from actual knowledge of loans made, from actual refusals of loans to good farmers, and I hope before the work of the Committee is finished to bring forward specific cases.—A. I have no doubt there are cases. We are not infallible, we make mistakes, but we don't make them intentionally.

Mr. Good: Before we proceed any further, and before we adjourn, I wish to place on record one statement, one sentence from Sir Edmund Walker, on the question I asked Sir John Aird, as to the ability or power of the bank to influence prices. At the annual meeting of the Canadian Bank of Commerce in 1920, in January, this statement was made:

We cannot adjust prices without also bringing about a contraction in the volume of paper money, and other instruments of credit, and so far as it is possible to enforce contraction without interfering with the production of what is really necessary, the reduction of prices will be facilitated.

The CHAIRMAN: Sir Edmund Walker will be here and you can ask him to explain that.

Sir JOHN AIRD: Ask him to explain it. I do not always agree with Sir Edmund Walker.

By Mr. Shaw:

Q. Sir John, I would like to ask you one or two questions. I gather from your remarks that you agree with the previous witness, that the banking system of Canada meets every legitimate requirement to-day?—A. At the present time

Q. And you make no reservation, regardless of whether it applies to agriculture, manufacturing or any other industry?—A. No.

Q. The bank as I understand it, is primarily chartered for the purpose of financing commercial transactions, what we call short term commercial transactions?—A. You are from Calgary I believe.

Q. Yes?—A. As regards our commercial business in Alberta and Saskatchewan outside the great centres, our commercial business is not 25 per cent of our business with the agricultural community.

Q. My question is whether or not banks are not primarily chartered for the purpose of what we call distinctly commercial transactions?—A. Commercial, financial, manufacturing and agriculture, probably I should put agriculture first, because agriculture is the basic industry of this country.

Q. I am glad that you admit that agriculture is the basic industry in Canada to-day?—A. Is one of them anyway, if not the chief.

Q. And any banking organization should be constructed with primary reference, having the primary consideration the agricultural needs?—A. Yes; it is too.

Q. I understand that your usual procedure in connection with a loan to a farmer would be that he could come in some time previous to the crop season?—A. Yes.

Q. And then he gets a loan for a period of three and four months?—A. Or six months.

Q. It is ordinarily four months, is it not?—A. If a farmer wanted it and he was a good farmer, he would get it for six months.

Q. Is it not as a matter of practice made a shorter term, three to four months?—A. That is at the request of the farmer, because the farmer in addi-

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tion to waiting for his crop may have hogs and cattle and sell them and he has an opportunity of reducing his debt and paying less interest.

Q. I understood from you that if the farmer came in at the beginning of the crop season and came to your bank and said "I want a loan for a year," you would simply draw up the note and take his signature to a year's note payable in a year?—A. We have many transactions that way.

Q. As compared with the whole is it not really insignificant?—A. It is a small percentage; at the request of the farmer.

Q. The real fact is that perhaps at the request of the farmer,—a good many times, I suggest to you, at the request of the bank?—A. No, the request of the farmer.

Q. The notes are taken for a period of less than six months, and the purpose is that the notes shall mature some time during the months of August or September before the crop is over in order that the bank may then have an opportunity of sizing up the situation, and before renewal asking the farmer for collateral security, if necessary; that is the real situation?—A. I do not think that is a fair way to put it; you are rather intimating that the bank is trying to take advantage of the farmer, and we are not.

Q. Have you read Professor McGibbon's report in that connection?—A. I have not read it, but I have had it epitomized.

Q. And is not that one of the suggestions he makes in his report in regard to farming conditions in relation to the bank?—A. He makes a great many suggestions, and I believe his own government does not endorse the report.

The CHAIRMAN: Would it be satisfactory to you if we met this evening for a little while to give a chance to finish with Sir John, rather than have him come back again?

Hon. MEMBERS: Agreed.

The Committee adjourned until 8 p.m.

8.30 p.m.

The Select Standing Committee on Banking and Commerce resumed at 8.30 o'clock p.m., Hon. A. K. MacLean, the Chairman, presiding.

The CHAIRMAN: Sir John, I think we had better get on now.

Sir JOHN AIRD, recalled:

The CHAIRMAN: Now, Mr. Shaw.

By Mr. Shaw:

Q. Sir John, at the adjournment hour, we were discussing the practices, the common practices in connection with the negotiation by farmers of loans from the chartered banks, and I suggested at that time that the loans were, a great majority of such loans, on the 8 per cent interest basis. That is correct, is it not?—A. Yes, the large percentage, the largest percentage.

Q. And I was suggesting also that the loans were for short terms, a great majority of which would be for a period shorter than six months?—A. Yes, that is correct.

Q. And many of these loans, I am led to believe, are from a minimum of three months—A. To six months.

Q.—to six months. Now, I have no doubt, Sir John, that you will readily realize that a three months loan does not adequately meet the wants of the

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farmers engaged in agricultural activities of any kind.—A. It depends upon the date at which the loan is issued. For instance, if a farmer came in, say, in the middle of September, when his crop was coming through—

Q. A three months loan then?—A. Would suffice for his requirements.

Q. But as a matter of fact, Sir John, is this not the fact, that the farmer endeavours to clean up with the bank after his crop is off and his returns received, and then he goes to the bank perhaps in the early spring, and endeavours to make some arrangement with regard to the following season?—A. That is right.

Q. That is the usual practice?—A. Yes.

Q. That means, then, that taking that for a period of three months, the loan would mature in July or August of the same year?—A. Yes.

Q. Then the farmer, of course, has nothing to sell at that particular time—I am speaking primarily with reference to the grain farmer?—A. No, he would not.

Q. So the only thing he could do would be to renew that note for a further period?—A. Yes.

Q. In which event if he is unable to pay interest, the interest would be added and a new note taken?—A. Yes.

Q. At the rate of 8 per cent?—A. Yes.

Q. Now you will of course realize that a short term loan of that character does not meet the normal requirements of the grain farmer; that is I mean for the period only?—A. Yes, you will allow me to say when a farmer comes in with a short term note dated at that period of the year he invariably stipulates he may require a renewal in which case the renewal is granted.

Q. And the justification given by the banks and I am not saying it is an improper situation, at the expiration of the note they will have an opportunity of reviewing the situation?—A. Sizing up the situation.

Q. And if necessary securing additional collateral, that is a fact is it not?—A. That is possible.

Q. Take on the other hand the farmer—on the one hand the farmer may secure a loan from the bank, on the other hand he may meet his credit requirements by securing a loan from a mortgage company; what is the normal rate of interest charged in Western Canada at the present moment by a mortgage company?—A. I think it varies some 7 or 8 per cent and as I said to-day I think we are following the lines pretty much of mortgage companies in connection with the pension fund of our officers which amounts to some six millions of dollars, which is no insignificant sum, and are advancing loans on that and I do not think the average would be 8 per cent. I think the loans from the loan companies and mortgage companies and trust companies is probably $7\frac{1}{2}$ to 8 per cent.

Q. Were the funds, your pension funds ordinarily loaned in the Three Western Provinces?—A. Largely.

Q. I am surprised to hear that money is now obtainable from loan companies in Western Canada at the rate of $7\frac{1}{2}$ per cent.—A. As I said this afternoon you have that remedy in your own hands. I do not think the mortgage companies or the trust companies are inclined to favour mortgage loans any more than the rest for the reason of the iniquitous legislation that has been enacted from time to time in regard to exemptions that have been made and which are retroactive. Credit and capital are very timid things?

Q. Yes, I know.—A. Once you frighten them it is very difficult to get them back.

Q. You think they have been seriously frightened by the legislation in the western provinces?—A. Yes.

Q. What legislation do you particularly refer to?—A. To exemption for seed, grain and lands and chattel mortgages and exemptions on live stocks.

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Q. Exemptions for chattel mortgages?—A. On live stock and grain.

Q. You do not mean to suggest that the mortgages of the loan companies or trust companies cover chattels as well as real estate?—A. In general, but this legislation that has been passed has forced the lenders of money, both Canadian companies and Canadian banks to exact conditions which they would not have exacted ten years ago.

Q. That may be with regards to conditions; but I am speaking particularly with regard to the rate of interest. You suggested at the outset that money was available to the farmers at the rate of $7\frac{1}{2}$ to 8 per cent and I expressed my surprise.—A. All you have to do is to examine the records of the returns of the loan companies and trust companies to the Provincial Governments.

Q. You do not suggest that the rate you are giving now, the rate you are mentioning is the rate applicable at the present time in Western Canada?—A. I know of some companies that are willing to lend on first class security at between 7 and 8 per cent.

Q. There would be a lot of farmers in Western Canada who would be glad to get that information?—A. Gilt edged people, if they are good people.

Q. We have lots of them out West?—A. I admitted that at the start and I think I have more confidence in the West than some of the delegates from the West.

Q. I beg to differ from you there. I have never found a more enthusiastic group of representatives in this Parliament than the group from Alberta and I know them all fairly intimately. However, in any event your evidence is Sir John that from loan companies and trust companies long term moneys could be borrowed at the rate of somewhere between 7 and 8 per cent at the present time?—A. I think if you will amend your laws you will get it cheaper.

Q. Then in connection with that before any of these laws came into effect, what would you suggest was the rate charged by loan companies and trust companies in Western Canada?—A. I think it is about the same, 7 or 8 per cent.

Q. The legislation has not affected it a particle?—A. They are willing to go on and lend you money.

Q. The amount of money is not available?—A. Yes, for that very reason.

Q. It does not affect the rate of interest?—A. It does not affect the rate of interest—if these restrictions were not in force it would. I happen to be a director of a trust company.

Q. Your optimism leads you to the conclusion that if it were not for this legislation, whatever it may be in Western Canada that interest rates would be 7 per cent so far as long term renewals are concerned?—A. I do not think first-class loans on farm properties are exceeding 7 per cent.

Q. I think you are prepared to admit that the features of this legislation—before the advent of this legislation money was never obtainable any cheaper?—A. Well in some cases it probably was.

Q. I am speaking of the great majority?—A. I do not think you can compare the conditions of five or six years ago with the conditions that exist to-day; I think the people of the West were much more prosperous than they are to-day. One who has money to loan is governed by that.

Q. We have discussed very casually the short term credit advanced by the bank and the long term credit, advanced by the loan, insurance and mortgage companies, are you prepared to admit there is a gap in the credit structure between these two forms of loaning money?—A. I am prepared to admit to this extent that if there was a continuation of the short crop conditions that have

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existed in Southern Saskatchewan and Southern Alberta that gap would likely arise.

Q. The gap I take it exists to-day?—A. To a certain extent it does.

Q. I take it from your evidence that the gap only exists in the event of there being a shortage of crop, is that a necessary inference from your remark?

—A. I think so, I think if the West got their crops and got three crops out of five, I think they could take care of the whole situation.

Q. Now the previous witness suggested yesterday that there might possibly be a gap between the credit structure between these two and you agree with him to the extent you have mentiond?—A. Yes.

Q. So that I judge from what you say Sir John that taking into consideration normal conditions there is no necessity for any scheme such as a rural credit scheme?—A. No, I am a believer in the rural credit scheme. I am not referring to any particular scheme.

Q. That principle?—A. I do believe in the rural credit scheme on the proper basis.

By Mr. Hanson:

Q. What is the proper basis?—A. The proper basis is this. The Government should not take deposits; the Government should issue long dated bonds—in the United States they issue for forty years—I would not say that. In Manitoba, Saskatchewan and Alberta I would limit the period to from five to fifteen years or probably twenty years at the most. I would say to raise the money on these bonds and lend it to the farmer, but do not take deposits from the public and lend them to the farmers on the understanding that they are going to be long dated loans. You cannot do that. We have no objection to a rural credit scheme provided you raise the money on fairly long dated securities. I did not think it is a good thing for the farmer to borrow for five years. I think it is an advantage to have his loan mature within five years; conditions may change. I think interest rates are going to fall in the West, particularly if you continue to raise good crops. It would be an advantage to the Government to issue bonds, of, I would say five to ten years; the tendency is to get cheaper and at the end of ten years you would renew the bonds at a lower rate.

Q. So far as the rural credit scheme is concerned on a proper basis it has your thorough approval?—A. Yes, it has, always has had.

Q. I take it Sir John that some rural credit scheme would probably meet the situation we have been speaking about more effectively than any other method?—A. I think it would.

Q. Just one other thought.

By the Chairman:

Q. Does the Government of Alberta receive deposits?—A. They do, but their original plans have been abandoned.

By Mr. Shaw:

Q. When were they abandoned?—A. They have been abandoned to this extent, that they started to allow interest at the rate of $5\frac{1}{2}$ per cent and reduced it to 5 and then reduced it to $4\frac{1}{2}$ and the Alberta Government went into a rural credit business. They loaned \$2,000,000 under what the Alberta gentlemen will understand, under the Cow Act. I needn't tell you what that cost the Province of Alberta, a million and a half dollars, do not get into that position again.

The CHAIRMAN: What was that?

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Mr. SHAW: Mr. Duncan Marshall when Minister of Agriculture introduced what he called a Cow Bill.

The WITNESS: The cows and the bulls all disappeared.

Mr. SHAW: The Province was made a farmer for the purpose of producing pure-bred stock, but the Province under the Farmer Government sought to realize on the security and I understand most of the stock had disappeared.

Mr. IRVINE: It was too liquid.

The WITNESS: The bulls were not sure getters, that is the trouble.

Mr. IRVINE: The banks were.

The CHAIRMAN: You would have the Provincial Government loan the proceeds of these bonds to the farmers; you would establish some organization?—A. Yes.

By Mr. Shaw:

Q. I am going into that; you will admit of course, Sir John, knowing the conditions out West—I think I can say so far as I am informed that I know none of the bankers in Eastern Canada that know the conditions in the West as well as you do?—A. They have not lived there.

Q. You realize of course that Canada so far as her surplus farm products are concerned must compete in the markets of the world with the produce of other countries?—A. Yes.

Q. And notably with the products of the United States.—A. Yes.

Q. You have to put the farmer in a position where he can compete with the farmers of the United States in order to market his product?—A. Yes.

Q. No question about that?—A. Except this, Mr. Shaw, the farmer-producer of grain in Western Canada has this advantage over any other country in the world, that his grain is worth anywhere from 15 to 25 per cent more than any other—or I mean to say it is 15 to 25 per cent better than any other grain in the world either for food or milling purposes.

Q. That is quite so?—A. Yes, Number 1 hard, Number 1 Northern and Number 2 and 3, no matter what grade you take it in; he has that advantage.

Q. You will concede, of course, that his transportation difficulties are more serious in regard to his product than the transportation difficulties which the farmer of the United States raising grain meets?—A. To some extent, but that condition is being rapidly overcome.

Q. When?—A. I would like to refer to that because I think somebody raised the question to-day—I do not know who it was, but one of the members of the Committee in regard to the St. Lawrence Canal; I think it was Mr. Irvine. Of course I am a Toronto banker and I think probably 75 per cent of the citizens of Toronto would vote for the St. Lawrence Canal. As a banker I would not at the present time and the reason is this: We have already got one outlet to the East; we have got another one that has shown splendid development during the last three years via Vancouver and the Panama Canal; you have another one, whether it is going to be successful or not remains to be seen—that is via the Hudson Bay. I think it would be a crime for this country to think of spending probably one hundred million dollars or to contemplate spending one hundred million dollars on the St. Lawrence Canal until you have demonstrated you cannot take the wheat out of the West, and particularly from Alberta via the Panama Canal, and I think you can. That is one of the things that is going to help Alberta.

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By Mr. Shaw:

Q. I hope the members from Ontario are here. I think your statement of the cost of the St. Lawrence Canal is very modest; I understand the estimate is two hundred and fifty million.—A. That is by the United States Government.

Q. There is no doubt the transportation difficulties of the farmer of Western Canada is very serious?—A. Yes.

Q. Comparatively more serious than similarly situated farmers in the United States at the present time.—A. The man who lives and raises wheat in Montana and Washington, and I think I know a little bit about that—we have branches in Portland and Seattle and they handle a very large amount of business and I do not know that the farmer there is any better off than the farmer in Alberta particularly if you develop the Panama Canal route.

Q. Well of course, Sir John, you are taking the State of Montana?—A. Yes.

Q. Where there is comparatively little grain raised?—A. There is as compared to the North West.

Q. We can agree on that? I think we can agree that the transportation difficulties of the farmer of Western Canada are in a considerable sense—we won't quarrel of the degree but he is in a considerable sense worse off so far as transportation difficulties are concerned than the great producing centres in the United States?—A. There is no doubt about that; it is a newer country.

Q. The farmers of Western Canada have other difficulties in addition to transportation; they have combines here and there, alleged combines here and there and make it rather difficult.—A. You do not include the banks.

Q. You ask that the banks be excluded?—A. Yes.

Q. Now what I want to ask about is this. The United States Government has made provision that the producing farmers are to have the benefit of long term agricultural credit at a rate of interest which amounts to $5\frac{1}{2}$ per cent.—A. Free of taxes.

Q. Yes.—A. Do not forget that.

Q. That is a fact, is it not?—A. I do not know what the rate is.

Q. I will give you the figures. It is a 34 year long term loan, by paying \$55 a year the full amount is paid off on a \$1,000 loan at $5\frac{1}{2}$ per cent per year, the total payment amounts to \$1,870.—A. I am accepting your figures.

Q. I do not think there is much question about that. Then they have in addition to that, Sir John, a short term agricultural credit?—A. They have two forms of credit, one under the Federal Reserve Land Bank, and one under the joint stock Land bank, and these vary, I understand.

Q. So that the farmer in the United States has the benefit of much cheaper money than the farmer in Western Canada can hope to get or will be beneficial, cheaper money than the farmer in Western Canada can hope to get in many years.—A. He may temporarily, but I might ask you a question. Should the farmer in Western Canada expect to be placed on a better basis than the ordinary retail man or the small manufacturer. Let me in answer to your question, ask you, in addition to giving them $5\frac{1}{2}$ per cent, you are giving them freedom from taxes. I do not believe in freedom from taxes. I do not think the farmer should expect me in a country like this to pay any portion of his taxes. I think it should be an equitable distribution, and if everybody would pay his fair share we would have less taxes and cheaper money.

Q. You say if everybody would pay his fair share. Do you think the farmers are not paying their fair share now.—A. May I ask you a question? There are 250,000 farmers in Canada. According to the official returns, less than 6,000 farmers pay income tax.

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Q. It is not because they are not able to?—A. No, not altogether.

Q. Do you mean to suggest that these men are dishonest?—A. No.

Q. What is the explanation of it?—A. I think it is the Government system that is defective.

Q. If it is effective for an ordinary individual like myself and the honourable gentlemen here, if it is effective and compels us to file returns for income tax purposes, why is it not equally effective for the farmers? How can they avoid it?—A. We are drifting on to dangerous grounds.

Q. You invited the discussion?—A. That is a political question.

The CHAIRMAN: Do not give it any political turn.

The WITNESS: Political bodies do not always do the right thing. I do not think it is the fault of the farmer. I think the farmer, and particularly the western farmer, and in fact all the farmers, I think 90 per cent of the people want to do the right thing.

Q. Farmers included?—A. Yes. We got into this question of taxation. We do not agree with the Government on that system of taxation. We think it is on a wrong basis altogether, and we think the proper system for taxation is a turnover tax on the volume of business that is done, and if that were general, the tax on the farmer, the retail men, the wholesale man and the manufacturer would be a great deal less, but I might tell you this, that we have as a bank submitted to the Finance Department of this country statements which would show that an infinitesimal tax on the farmer and the small dealer—and you could gauge it from day to day, if necessary, or month to month—would produce \$200,000,000 or \$300,000,000 or \$400,000,000.

Q. We ought to page the Minister of Finance.—A. I am not afraid of the Minister of Finance. I have discussed it with Mr. Fielding.

Q. I do not want to go into that very interesting discussion just now, Sir John.—A. But that is the point I want to make, because that is a system which would relieve the farmer tremendously. That would be a great help in bringing about a reduction in the rate of interest.

The CHAIRMAN: We would rather have the witness talk, than have cross-examination.

The WITNESS: May I go on?

Mr. SHAW: You are not making any reflection on me?

The CHAIRMAN: No. If the witness would go on and make his explanation it would be better.

Mr. IRVINE: Is there any relevancy to this inquiry?

The CHAIRMAN: Indirectly.

Some Hon. MEMBERS: Go ahead.

The CHAIRMAN: Possibly Mr. Irvine wants to go away and he is getting a little uneasy. If that is correct, I will ask Mr. Shaw to let us digress for a moment, and let Mr. Irvine go on.

Mr. HANSON: I think the Committee would like to hear Sir John Aird say what he wants to say.

The WITNESS: I am only mentioning it because I think it is of importance to the banking community that anything we can do that will alleviate the suffering of the whole community would be beneficial, and I think men like myself, who are on a salary pay to the top notch. We cannot escape it, and I think there should be some system introduced where everyone would pay his fair shot. The fair way to do is by a tax on the turn-over. Somebody said the banks did not pay their fair rate of taxation. Their percentage, I

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think, is larger than anybody's. Take a bank like ours. In 1920 we paid taxes, Dominion, Provincial and Municipal, to the extent of nearly \$2,000,000. Our taxes this year will be probably \$1,600,000. That comes out of you indirectly, to a certain extent. If we can bring about a system which will relieve us and relieve you, we can reduce your rate of interest. It is a matter of common sense.

By Mr. Cahill:

Q. Would it not increase the cost of living?—A. No, not a bit. Mr. Cahill, it would be a small tax. Why should I pay the maximum tax. We will go to the lowest order of labour, say the peanut vendor. Why should he get off? Why should he not pay 50 cents or a dollar? He should. Let everybody pay their fair shot.

Mr. IRVINE: He is paying more than that now.

By Mr. Hughes:

Q. From whom would the turn-over tax be collected? The wholesaler, the manufacturer and the retailer?—A. The wholesaler, the retailer and the manufacturer. I would compel every retail man and peanut vendor or the seller of ice-cream to keep a certain set of books. It would be better for them.

By Mr. Irvine:

Q. Would it not be better to soak the bank than the peanut vendor in taxes?—A. No, the bank is soaked now.

By Mr. Cahill:

Q. About what percentage would that tax amount to?—A. It is graded.

Q. One per cent or two per cent on the turn-over?—A. It would come down as low as one-quarter. It depends on the turn-over of business.

By Mr. Hughes:

Q. By the time it reached the consumer it would be larger?—A. Yes.

Q. Would it not be a better system or would it be, for the manufacturer to pay or the wholesaler to pay, because they keep a good record. They keep good books, but the peanut vendor and the small man does not?—A. And might pass on the whole of the tax to the consumer.

Q. It would be easier to collect. It would require a much smaller staff?—A. It might be.

The CHAIRMAN: We cannot go too far on that.

Mr. HUGHES: It is very interesting for a man of Sir John's experience and knowledge. It is very good.

By Mr. Shaw:

Q. My only suggestion to you was that the figures you produce regarding economic taxes payable by farmers is susceptible of the interpretation, both of us agreeing that 90 per cent of the people are honest, including farmers, that they have not anything with which to pay the income tax.—A. I quite agree with you to a certain extent in regard to certain districts, but I can tell you this Mr. Shaw, in our experience and with the balance sheets that come in to us from farmers, manufacturers, dealers, wholesalers and retailers, most of them can afford to pay. Of course there are exceptions through the dull years. I do not think the manufacturers during the last couple of years have made any money. I think the manufacturing interests of this country—the results of the last two years have been disastrous for this reason—they thought this

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boom, if you might call it so, was going to continue and they were stocked up with raw materials at the highest possible prices, and these have been reduced and they have had to write down their inventories.

Q. Do you not suggest that farmers have made any money, farmers of western Canada have made any money during the last two or three years?—A. I would not agree with that, from what I have seen. There are certain districts I admit in southern Alberta, and probably in some of the central districts of Saskatchewan and some of the central western districts of Alberta and Peace River, where they have had very hard sledding, and I do not think probably they made more than a living.

Q. You read the figures this afternoon for the Province of Alberta, as to the total value of the crop; have you taken the trouble to compare that crop with the 1920 crop, so far as bushels and tons are concerned?—A. Unfortunately I have not got those figures with me; I have them for Saskatchewan. I have figures for Saskatchewan and the other Provinces, which show that Alberta Province has been the sufferer tremendously.

Q. The production has differed comparatively little, the great difference is in the price received—is that not the fact?—A. May I ask you to repeat that?

Q. The figures for the Province of Alberta would indicate that the yield has not varied so much, the difficulty is that the price received has been much lower than it was during the preceding years?—A. It is lower than it was in the beginning of 1922; but, Mr. Shaw, I think you should go one step farther and say that the yield has been more affected, that the total yield has been more affected by the drought which existed in certain quarters.

Q. The figures will speak for themselves?—A. Yes.

Q. What rate of interest do you think the farmer in Western Canada can afford to pay; what is the maximum rate of interest he can afford to pay?—A. I think under ordinary crop conditions the farmer, if he gets an average crop or even an average crop in three out of five years, and if he gets anything the other two years—and he should get something—he should pay eight per cent. I do not say that if he has a failure for three years, as they have had, that he can afford to pay anything.

Q. Would you say, having in mind the agricultural credits in the United States, that in the years to come, when that scheme is in operation, considering the difficulties we have in Western Canada, can you say that the farmers of Western Canada can compete in the world's markets, with an eight per cent rate of interest and the other conditions which you have suggested?—A. Unless you exempted the farmer from taxation, it would be a handicap to him; but he has this advantage, as I said before, that through the excellence of his crop, the grain he produces, and through the excellence of the cattle he produces he has a very great advantage over the farmer to the south of him. But I do not know how far one would offset the other; I think it would to a very considerable extent.

Q. You suggested this afternoon that the American tariff, the Fordney tariff, is a great hindrance to the development of the cattle industry; there is no doubt about that, is there?—A. There is no doubt about that at all.

Q. So that you would join with me in any endeavour to have it remedied?—A. I will hold up both hands for that.

Q. Do you go so far as to say that you would like to have the whole tariff removed?—A. As Mr. Good says, we might get on common ground there. After I leave the bank, ask me that question.

Q. Has the Canadian Bankers' Association seriously considered the development of some rural credit scheme comparable to the United States scheme?—A. The United States scheme has only come into the limelight recently.

[Sir John Aird.]

Q. But it has been under discussion a number of years?—A. In a casual way, it has been discussed, and as I said before, anything that the bankers can do to alleviate the condition will no doubt be done.

Q. But as leaders in the financial world, have the bankers seriously got together and said "We will put before the people of Canada a definite, constructive programme"?—A. No, sir; it has not been brought before us. It is only recently that the final scheme of the Federal Land Banks has come into force, and in addition to those two schemes there are other schemes in the United States which are beneficial to the farming community, and particularly to live stock; they have a live stock bank, and that is a benefit to the community.

By Mr. Hanson:

Q. Did I not gather from you that you favoured the Provincial Government taking this question up in that way and issuing bonds for these loans?—A. Yes, we favour it, provided they stop this iniquitous practice of taking deposits and lending deposits out on long term loans—which they should not do.

The CHAIRMAN: Mr. Shaw, I would like to give every member of the Committee an opportunity of examining this witness. Will you please proceed as rapidly as you can?

By Mr. Shaw:

Q. I would like to ask this question; have you any objection, Sir John, to Government inspection of banks?—A. Yes.

Q. What is your objection?—A. The Government inspection of banks would throw a responsibility upon the Government, and naturally people would say in the event of trouble "Well, the Government inspector or auditor signed this statement as correct, and we naturally look to the Government to protect us." I do not think our Government should assume that responsibility, because I do not think the Government has the means, it has not the efficiency, it has not the ability to examine a bank.

Q. Are you satisfied with the proposed revisions in the proposed Bill No. 83 with regard to the returns to be made by a bank?—A. Particularly, with the exception of what Sir Frederick Williams-Taylor suggested in his paper which he read to you, I do not see many objections to it. The banks want to get into a position where they will be sound.

Q. Would Government inspection do you think have indicated the condition of the Merchants Bank some months before its collapse?—A. No. If it had, the Government would have had to pay the liability.

Q. Why?—A. The Government should not assume that responsibility. There is no reason why the Government should assume the responsibility of guaranteeing the shareholders of banks against losses, any more than any other company.

Q. They have a very complete system of Government inspection in the States?—A. So far as the detail work is concerned, there is a great deal of circumlocution about it, but if you will examine the records of failures in the United States of banks, you will see that it has resulted very much more disastrously to the shareholders and to the public than has been the result in Canadian banks.

Q. That may be a matter of debate?—A. I will back that up with evidence. I do not think we should get into that position.

Q. You suggest that if the Government adopted a system of inspection they would be liable to the depositors who would suffer loss; does the Government assume any financial responsibility in the United States, if a loss occurs?—A. No, but there has been a great deal of hard feeling.

[Sir John Aird.]

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Q. With a system of Government inspection, it does not necessarily follow that the Government is liable to depositors who may lose?—A. Not necessarily, but in a country like this, under our system, it would; in fact, at the failure of the Farmers' Bank there was an attempt to hold the Government responsible, and we do not want to get into that position.

Q. The depositors were simply asking that the Government should, as an act of charity, recoup them for their losses?—A. There were other things besides the question of charity.

Q. It received a short shrift at the hands of the Senate?—A. Yes, I know that. I do not think Parliament should assume that responsibility; I do not think we should insure shareholders and depositors against their losses.

The CHAIRMAN: Mr. Irvine wants to leave shortly, so we will let him question the witness.

Mr. IRVINE: I just have one or two questions to ask, Mr. Chairman, more from the point of view of the economic side of the banking question. I was rather amazed to hear Sir John deny this afternoon, or rather insist that the issue of credit or the contracting of credits had not any effect on the rise or fall of prices.

By Mr. Irvine:

Q. Is that substantially what you said, Sir John?—A. That is right.

Q. Did you also say that you had never heard of the quantity theory of money?—A. I said that to Mr. Good, but not in that sense. I may have heard of it in some other way, or propounded in some other way.

Q. Having never heard of the theory, you arrived at a conclusion on the question immediately the question was put to you; you would not say that that was your mature judgment, after a lifetime of consideration?—A. From the evidence put before me I had no other conclusion to come to.

Q. I think if you had had a previous knowledge of the theory, also of the school that is back of it, you would not have said that?—A. I don't know; I don't think you can carry on banking on theory.

Q. We are calling it a theory, but as a matter of fact it is a scientific fact in the school of economy, and I do not think you would find—or I might ask you this question. Do you think you could find another banker as reputable as you are, in the English speaking world, who would make that statement?—A. If he had as little evidence as I had, I do not think he could come to any other conclusion.

The CHAIRMAN: Between yourself and myself, there is a school which is opposed to the quantity of money theory, and there are text books published against it.

Mr. IRVINE: I am not referring to the quantity theory in this regard, although it is implied; you will find economists who disagree in part with the quantity theory, but you will not find a banker with the reputation of Sir John who would say that the expansion or contraction of credit had any effect upon prices. That is the point I wish to make.

WITNESS: They advance theories and schemes which I think are dangerous, and any practical banker would dismiss them; that is the way I look at it. We are dealing with practical questions and practical transactions from day to day. We do not want theories introduced into banking. If you get into theories, you are on dangerous ground.

By Mr. Irvine:

Q. I am not dealing so much with theories as with a fact.—A. You referred to it as a theory.

[Sir John Aird.]

Q. If you extend our credit, and it increases correspondingly the cost of living, it is not a theory, it is an important fact, and bankers who have the handling of these institutions ought to know the effect of their actions?—A. They should.

Q. And every banker should be an economist, or his charter should be withdrawn—but I am not going to lecture you. Did the bank of which I believe you are the head at one time give a credit to the Canadian Northern Railway to the extent of \$40,000,000?—A. I do not mind answering the question.

Mr. HANSON: That question should not be asked here.

Mr. IRVINE: It is not so dangerous as it used to be. If there is any objection to it, I will not ask it.

WITNESS: I would like you to put your question in this way: Did the Canadian Bank of Commerce grant a credit of from \$25,000,000 to \$40,000,000 at the request of the Province of Alberta, guaranteed by the Province of Alberta and the Dominion of Canada? I say Yes, we did, on the guarantee of the Dominion of Canada. It was in order to extend the lines of the Canadian Northern Railway in the Province of Alberta and to carry it over the Mountains. We did, and that credit existed for about four weeks; at the beginning of August 1914, the beginning of the war, and the Bank of Commerce protected the credit of the Dominion Government and the Province of Alberta, and that was the cheapest money that was ever borrowed in Canada by any government or any corporation in Canada.

Mr. IRVINE: You see I warmed him up to the theme; was not that a good question?—A. That is history.

Mr. IRVINE: I did not mean to imply in my question that Sir John had issued credit to the extent of forty million dollars without having good security; and I should imagine from his attitude that he would look after the security.

The CHAIRMAN: You did not even ask him the question.

By Mr. Irvine:

Q. As a matter of fact did not it result in this, that in order to protect the bank in its lien the Dominion Government had to take over the C.N.R., is not that so?—A. No, absolutely no; there was never a period in the history of the Canadian Bank of Commerce or Mackenzie, Mann & Co., where there was the slightest doubt of the Canadian Bank of Commerce losing one dollar. The Canadian Bank of Commerce never, and I am glad you brought up the question, never advanced to Mackenzie, Mann & Co., or the Canadian Northern Railway Company any large amount of money where it did not have the guarantee of the Dominion Government or the provinces of Western Canada, and it was always done at the request of the Government of the Dominion or the provinces. Now, I am glad that you brought up that question because we feel keenly about that. No bank in Canada has done so much for Western Canada as the Canadian Bank of Commerce. We have been slammed in the most merciless way with regard to our relations with Mackenzie, Mann & Company and with the Canadian Northern Railway, and instead of the western people feeling that the Canadian Bank of Commerce has not rendered to them a service they should get down on their knees and thank us for it, because the Canadian Bank of Commerce has developed the West, with the assistance of those great men, Sir William Mackenzie and Sir Donald Mann. Gentlemen, I feel warmly on this, because we have been abused tremendously about that; and there is no bank that has done so much for the West as the Canadian Bank of Commerce, and we are willing to continue to do that. We have put up with a great deal, not only from the western people, but the banks—the banks in

[Sir John Aird.]

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Canada, that have gone on to the market in London and New York, our competitors, and have tried to damn the western country and the Canadian Bank of Commerce for carrying on the Canadian Northern Railway system, they tried to ruin it, but they could not, the ground was too solid. It was the Canadian Bank of Commerce—and I went through it, I have borne the burden of it for the last thirty years in Western Canada, and it was I, the general manager of the Bank of Commerce, that stood up for the West, that stood up for Mackenzie-Mann and the Canadian Northern, and if it had not been for the Canadian Bank of Commerce we would not have had a Canadian Northern Railway to-day, and you would have been subject to the great octopus, the Canadian Pacific Railway. I am glad you brought up that question. I feel warmly about it, excuse me, Mr. Chairman. (Applause).

Q. I am very glad we brought forth the oratorical ability that Sir John possesses in this matter; I hope he will not think I was insinuating anything on the Bank of Commerce; I was not aware it had been maligned.—A. You mentioned forty million dollars; do you know that it came out in a Moose Jaw paper—not that they owed forty million dollars, but that they owed us ninety million dollars, and do you know they telegraphed that information to Victoria, not that they owed us ninety million dollars but that they owed us nine hundred million dollars! I am telling you that, that was newspaper work; but that is what they said. It was more money than all the assets of all the banks in Canada put together at that time. Now, that is what occurred. That is a fact. I can produce the newspaper articles; and still we live, and are going strong too.

Q. The point I was leading up to, Mr. Chairman, was simply this, that I believe the Canadian Bank of Commerce was only doing its duty when it supplied the money to carry on a national scheme of that character; I was not suggesting it did wrong, but I was just going to ask that if the Canadian Government backed the security, if I may put it that way, became security for a loan on a railway which was carried out, and which as you say was a great success, because it saved us from the octopus on the other side, could not the banks be supported by the government in this way with regard to numerous other schemes that might be required in the nation?—A. I will answer this in this way—you do not mind if I stand up?

Q. No?—A. The provinces of Alberta and Saskatchewan and Manitoba and British Columbia particularly, probably Alberta was as bad as British Columbia, did assume huge liabilities in connection with the Canadian Northern Railway, so much so that I think it did affect their credit, seriously affect their credit, and I think to-day Alberta and British Columbia are suffering from that fact. Alberta has assumed large railway obligations. I don't think Alberta can afford to go any further, and until you clear up that and actually get the government of our chairman here to relieve you of that railway liability, I don't think as a government it would be wise to assume further indirect obligations.

Q. You mean by that, I assume, for the present we have exhausted all the credit that we have, and better clear that off before we assume more liabilities?—A. No; I would not say you have exhausted your credit; I think your credit is good, but it is going to cost you too much.

Q. If we have a cheaper rate of interest it would be better then?—A. Yes.

Q. I think you said in reply to questions to Mr. Shaw, or rather you said early in the afternoon that you anticipated there would soon be plenty of money available in the West at a lower rate of interest if crops were good?—A. Yes, in the next ten years.

Q. And being plentiful it would naturally be cheaper?—A. I think so. You will provide your own capital.

Q. You said in reply to Mr. Shaw that owing to certain legislation which had been passed in Alberta, capital was feeling insecure, and it would likely run away, how would you reconcile these two statements, if it runs away we would not have cheaper money in ten years would we?—A. I say it will run away if you continue this iniquitous legislation, and do not repeal it.

Q. You made the previous statement with that mental reservation?—A. Oh yes, and I suppose you know you are commencing to repeal it; they are in Saskatchewan, and I think you will have to follow suit.

Q. If capital is so timid as to run away in this manner from the scene of danger, would it not be a wise thing if the Canadian government should take steps to prevent it from running away from its duty?—A. I think the Canadian government has enough to look after.

Q. The CHAIRMAN: The Canadian government does not own it; it is owned by individuals.

By Mr. Irvine:

Q. I was thinking of the national credit rather than capital?—A. The Canadian government has all the liability it can take care of.

Q. I asked you that a minute ago and you said we have not exhausted all our credit?—A. No.

Q. We still have some left?—A. I think you have too if you pay for it; you can get money if you like to pay six, seven, eight, nine, or even ten per cent.

Q. Do you think there is any danger of interest getting scared under this legislation and running away?—A. If you commence to borrow as a government you will have to pay through the nose in the matter of interest. There is no doubt about that. The bigger your debt the less your security and the more they exact in interest.

Q. I think that there are other ways of doing it, but I am not arguing with you?—A. We will be very glad to hear them.

Q. I am not sure that you will be glad, but you will hear them anyway before we get through. One more question?—A. I think I will be glad, because I said in my opening remarks to-day anything we can do to assist the west we will be glad to do—as I said, we have a vital interest in the west, more so than all the people realize, and we are anxious to protect the west to a certain extent from itself.

The CHAIRMAN: Mr. Irvine is speaking from the standpoint of a westerner, particularly.

Mr. IRVINE: No; I am speaking from the standpoint of Canada, west and east are all alike to me.

By Mr. Irvine:

Q. You said with an average crop the farmer, perhaps you refer to the western farmer?—A. Yes.

Q. Would be able to pay 8 per cent interest?—A. Yes, that is if he had three crops out of five, and they gave him an average—

Q. I was going to ask you what you considered an average crop?—A. It depends on the district; certain districts yield higher; but I would say anywhere from 17 to 25 bushels to the acre. I am speaking of wheat now, of course. I have seen oats go 120 bushels to the acre.

Mr. HANSON: I should like to ask a question.

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The CHAIRMAN: I wish somebody would ask Sir John some questions about the amendments.

Mr. HANSON: That is what I am going to ask about.

The CHAIRMAN: You might ask him first if he would like to have bank charters reduced to five years.

By Mr. Hanson:

Q. Would you express your opinion with respect to that—I am not vitally interested in it?—A. I think from the bankers' standpoint it would be a pity to have an agitation go on like we have had during the last few years in regard to bank charters every five years. We think it is better that they should be extended for the ten year period. The Minister of Finance has the power to introduce any change he likes at any session of Parliament. In the general interests of the business of Canada I think it is unwise to have this general upheaval with apparent dissatisfaction, I think it is not in the interests of the country.

Q. I would like to ask you in respect to some of the proposed amendments under section 54, that is the appropriation account and contingent reserve in the annual and special statement—it is proposed under section 54 to provide for the filing with the government of a statement of your appropriation account and contingent reserves, including undistributed profits, that is new and a departure from the monthly statement that we have had in the past?—A. Yes.

Q. Have you anything to add to what Sir Frederick Williams-Taylor has already said in respect to this?—A. No, I practically endorse everything Sir Frederick says. I think it would be a serious innovation; it might cause a tremendous upheaval because—

Q. As between the strong and the weak banks?—A. As between the big banks and the little banks. I think some of the little banks are just as good as the big banks in respect of ratio.

Q. But comparison might be?—A. Odious.

Q. And therefore it is not wise?—A. Not wise.

The CHAIRMAN: Were you talking about what you call inside reserves?

Mr. HANSON: Appropriation account, what is called secret reserves.

The CHAIRMAN: Sir John has great powers of exposition. I would like him to explain to the Committee how these contingent reserves are built up, is it by a reduction in the face value of your assets, is it more a book-keeping affair than a reserve?—A. No, the reserve is built up by what we think advisable to take out of our profits against what we consider doubtful accounts. As a rule in good banking we make substantial appropriations against what we call doubtful accounts. If we are fortunate enough to escape that loss, we allow that amount to remain on the inside as a guard against something that might take place in the following year. And then the excess profit of the bank from the sale of stock, which the shareholders pay, is generally carried to the inside in order to protect you from big losses.

Q. Is a big loss to a bank more dangerous than the loss of a similar amount of money to a private corporation, would it be more likely to create a panic?—A. It would, for this reason; if it became known in street gossip it would be serious, and it is that really, the street gossip, which killed the Merchants' Bank.

By Mr. Hanson:

Q. I understand that the form in which you carry this, if I understood Sir Frederick Williams-Taylor correctly yesterday, in your monthly statements to Government, is in writing down your current loans?—A. Writing down our assets

[Sir John Aird.]

not altogether our loans. We would write down securities, for instance Dominion securities.

Q. You would write them down in value?—A. No, they fluctuate daily and we would write them down. But particularly would we write down commercial loans.

Q. Current loans?—A. Current loans, yes.

By Mr. Cahill:

Q. If I may interrupt for just a minute, may I ask this: I understood you to say that the premium on stock sales was diverted to this fund. Are they not carried in the open fund?—A. In the Profit and Loss account.

Q. In the open fund?—A. Originally they are, but it is considered that that is something that belongs to the shareholders and should be a protection to them.

Q. And can be put in what is called the secret fund?—A. Yes, just like your ordinary profits.

By Mr. Hanson:

Q. Now referring to section 113, that is the declaration accompanying the return. Subsection 1 page 55, the last clause in the first paragraph of that section:

“And such returns shall be deemed to have been prepared and approved and concurred in by the persons severally who have so signed the same.”

Is it possible for a General Manager to carry that out?—A. No.

Q. It is not physically possible?—A. Not physically possible. You take our bank; we have branches in Rio de Janeiro, in Mexico, in San Francisco, and in London, England. We might have a dishonest accountant in Rio; he might make his return; it comes to me; I have confidence in him and I think he is right. We do our best to keep our men right; we employ the best men we can, but somebody might fall down.

Q. He might make a return of a current loan of \$100,000 and steal the money?—A. Yes. I don't think that because he does that, I should go to the pen in Kingston.

Q. Quite right. Now I would like to ask you in respect to the external inspection. I presume you knew the late Mr. H. C. MacLeod very well, for many years the Manager of the Bank of Nova Scotia. This external inspection was a great hobby of his, and I understood he said that when he got that his life work was completed, and he retired. Has that proven, as a result of your experience, to be such a safeguard to the shareholders of the Bank as was anticipated?—A. Well, in one case it has fallen down.

Q. That is the Merchants' Bank?—A. And unfortunately we don't yet know why because nobody has had the courage to ask why and where the auditor fell down. Now in our bank I don't think that could occur, because we have two auditors, the very best men that we can get and they make independent investigations. Now your protection is in the suggestion that has been made in the Act, that you have two independent auditors. I think you are making a mistake in limiting the period to three years.

Q. I was going to come to that later. Why do you say a mistake was made in limiting it to three years?—A. Because in a great bank like ours, or the Bank of Montreal, or the Royal Bank, it takes time to know the business.

Q. The very magnitude of the business itself requires long periods of time to understand it?—A. Yes.

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Q. Would you go so far as to say it would take quite three years for an auditor to become familiar with the business of a great Bank?—A. Oh yes quite.

Q. He would only begin to be useful to you when you would have to let him go?—A. Yes.

Q. What about this other provision, that they are prohibited from investigating accounts of customers of the bank while still engaged as auditors of the Bank?—A. Well you would never be able to get first class auditors, because I suppose, well, I know, we have employed our auditors to inspect and report on many accounts. In fact I may say we are considering making it a condition in connection with new business, when it comes to us from another bank, we are practically making it a condition that we shall have an auditors' report.

Q. It was proposed as an underwriters' security—and I have had something to do with this—and they insist on an independent audit before they will accept bonds and give them out in their name?—A. The time is coming when banks will do that too, and I think it is a good thing for the shareholders of a manufacturing or commercial company. The President of a great manufacturing company cannot know what is going on in his factory, he has to have experts, and it is right for him to do it, and if he comes to the bank for a large credit he wants to feel that he is putting his position before the bank in a correct form, because if he signed that statement and came to us for a million dollars and we lost it, we would proceed against the President of the great company, and he wants to feel just as a Bank does, that the auditor verifies it. It is a wise provision.

Q. Is it your experience, sir, that the inspection they have in the United States, the Federal Bank inspection, has been a great safeguard against failures of banks, or is it not rather a case of the door being locked after the horse is stolen?—A. Yes it is. As I say the loss to depositors and shareholders in the American banks has been much more serious than it has been in the Canadian banks.

By the Chairman:

Q. There are the loan clauses. Sir John, do you wish to make any remarks concerning 86 and 88?—A. I agree with what Sir Frederick says. It might be an impertinent thing for me to say, but I think that the gentleman who came here from England was rather interfering in something that did not concern him. I wonder what the banks in Great Britain would think if a merchant or manufacturer of this country were to go to Great Britain and tell them to amend their Bank Act, which has been running for hundreds of years.

Q. They would listen to us. They would listen to a Canadian in England.—A. I think the provision in the Act, for registration, is a safeguard and a good thing too. I think it is a good thing.

Q. Of each advance?—A. No, that would be impossible. You take a large manufacturing company or a grain company in the West, we would have several transactions a day. It is physically impossible for a grain company, or a milling company, to register those every day, or every hour in the day. If you made it that, it would be impossible, they could not carry on business. But if you give notice under the Act as you suggest, it puts the vendor of the goods on his guard. It is a simple thing and very easy. I would make it simpler than the act suggests; I would make it that the registration is good for three years and let it stand there. Anybody has the right then to go to the Receiver General and examine for himself. It is only 25 cents. We don't object to that.

[Sir John Aird.]

By Mr. Hanson:

Q. It is for the security of the borrower more particularly is it not?—A. Yes.

Q. I have heard some big borrowers object very strongly to this, particularly lumber companies in New Brunswick.—A. As far as the banks are concerned, we don't object to it, I don't think it makes much difference to the borrower because it is generally known now that the Act is used, all big borrowers use section 88. That is the only way they can get money.

Q. What do you say with respect to controlled companies by the banks?—A. I think that would be an unfortunate thing, because it would be compelling the banks to show in their liabilities, amounts for which they were not liable. A bank like ours for instance: we have a realty company. We don't deny it. We were the first to institute that and other banks have followed suit. But we have taken the precaution to write down that liability to one dollar, and in addition the bank has taken this precaution, that it is not liable either directly or indirectly, for the liabilities of that company, neither on its bonds or for anything it may borrow. Now it would not be right for you or for Parliament to say to the Canadian Bank of Commerce, you must include in your balance sheet five or ten million dollars of liabilities for which you are not liable, and then they say in addition if you own 49 per cent of the stock in the company, you must show the liability of the other 51 per cent. That would not be right. You might run up liabilities to almost as big as the liabilities the bank now has. That is not in the interest of the country.

Q. What was the underlying idea of incorporating a realty company?—A. The underlying idea was that it gave the bank a uniform safe building to carry on its business, and that it was able to borrow its money at a low rate of interest and to sit in premises suitable for it, and at a reasonable rent. Furthermore, in renting premises in country towns and in small places in Canada, we are always up against the proposition of the renewal of the lease, and we were invariably confronted by a landlord who wanted to increase our rent and that was the real reason.

The CHAIRMAN: Did you refer to subsection 6 of 113, Mr. Hanson?

Mr. HANSON: Yes, controlled companies.

The CHAIRMAN: Is there anything more, gentlemen?

By Mr. Carmichael:

Q. I would like to refer to Sections 88 and 88a, more particularly, perhaps, to 88a, which requires the registration of seed loan advances with the Assistant Receiver General. What would your opinion be, Sir John, if in addition to registering that advance with the Receiver General, the bank was also required to register the advance with the District Court Registrar?—A. In speaking of the registration, I did not suppose that that was going to apply to loans like seed grain loans. If it does, I would say that it should be struck out, because it would be a disadvantage to the farmer; he could not do it.

Q. Of course, I come from the Province of Saskatchewan, where municipalities are required to register their seed grain advances in the office of the District Court, and any person who wishes to know what is against the farmer, gets the information from the District Court or the Land Registration Office. Now, I have had it put before me that it would be a distinct advantage to business men particularly if banks were required to also make a registration of seed grain advances in the District Court, so that any merchant, say, that was called upon by a farmer to advance a line of credit could find out just how that farmer stood in connection with the bank, as far as seed grain advances were concerned.—A.

[Sir John Aird.]

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The banks would not object, but we think it would be an inconvenience to the farmer.

Q. There would be no objection on the part of the bank?—A. No.

Mr. HANSON: There is one amendment of which I have given notice, that is Section 84, "Liens on Standing Timber." Is there any possible objection to having some sort of notice given of these liens, public notice similar to that which an individual would have to give under the registry laws?

The CHAIRMAN: Do the banks take liens on standing timber?

Mr. HANSON: They can, under Section 84, and do. I understood that in British Columbia it is a common practice, but it is different in British Columbia from the Maritime Provinces, where they issue licenses. In New Brunswick there is a good deal of free-hold land, and I am referring particularly to liens on standing timber on free-hold land. You can take security on this timber held under Government lease by simply taking the assignment of the lease, which of course is the best and most common practice, and you record these in the Crown Lands Department, you assign the lease absolutely, but in the case of taking security on standing timber on free-hold land, there is absolutely nothing to protect the bona fide purchaser for value, or the mortgagee, or the creditors of the land, and I think there should be, so I have given notice of an amendment.

The WITNESS: The difficulty there is, the banks have considered that, but under the Bank Act, we are prevented from taking security on land. We would like that power, there is no reason why—.

By Mr. Hanson:

Q. Standing timber is real property?—A. Yes, but you cannot get a lien on that standing timber on real property without taking a mortgage on the land, whereas under licenses, under the Act, on leased land you can get it. I think is is a thing for the banks to consider.

The CHAIRMAN: You mean the lien should be registered like any ordinary lien?

Mr. HANSON: Yes, so that I or anybody else will have notice.

The CHAIRMAN: But, Mr. Hanson, do you interpret the Act to empower the bank to loan on standing timber in fee simple, timber growing on fee simple land?

Mr. HANSON: They have done it.

The CHAIRMAN: That is an interest in the land.

Mr. HANSON: Yes.

The CHAIRMAN: I did not believe they could do it.

Mr. HANSON: The case I have in mind, we did not thrash the matter out, the Bank of Montreal had the lien and took all the timber.

The WITNESS: You had the stumps.

Mr. HANSON: Yes, they were very valuable.

The CHAIRMAN: Now, Mr. Coote, you wish to ask some questions.

By Mr. Coote:

Q. Just a few points, Mr. Chairman, which I have noticed since I have come in, in the questions that have been asked. I think Sir John stated that we raised the best wheat in the world in Western Canada, and that it was worth, if I remember rightly, 15 cents a bushel more, or 15 per cent.—A. 15 per cent.

[Sir John Aird.]

Q. Are you aware, sir, that last November white Karachi wheat, that is wheat from India, was selling in Liverpool at 3 pence per bushel over No. 1 Northern?—A. I was not aware of that, but it might have been. I should say, of course in Great Britain the wheat market is an entirely different matter from the wheat market in Canada and the United States, because Great Britain imports wheat from all parts of the world. They do not use one particular grade of wheat in making flour.

Q. Quite so.—A. They blend or mix their wheat and it might have been that there was a big shortage of India wheat at that time, and they had to have it; it might occur that way.

Q. I think this condition obtained for quite a long time, and it seemed to me that you were leaving a false impression with this Committee.—A. I do not wish to leave a false impression, because it is generally considered—.

The CHAIRMAN: Why do you not admit that the Alberta wheat is the best, and close the argument; do not destroy a good impression.

By Mr. Coote:

Q. I am trying to make a point, and that is that Alberta is not getting the best price in the world. I would like to know whether Sir John will admit that?—A. Well, I think you are getting the market price of the world as a rule.

Q. But we are not getting any more, practically speaking, than for any other wheat?—A. I think you are getting higher prices for No. 1 Hard or No. 1 Northern—of course, there is very little No. 1 Hard now.

Q. You still think that?—A. Yes.

Q. Then, can you explain for the satisfaction of a lot of farmers in Western Canada, if their wheat is better, how it was that wheat practically all of last year, that is our shipping season of 1922, was from 15 to 18 cents higher in Chicago than it was at Fort William?—A. I do not know that I can explain that, except that they probably did not require your wheat at the time. There might have been manipulation.

Q. Under these circumstances, having reference or adverting to what Mr. Shaw said about the cheap money or credit which is now being furnished to United States farmers, would it be fair to ask you whether you think these Western Canadian farmers can compete with the United States farmers?—A. I think so, for this reason. I think your lands are richer, your average yield per acre is greater. I think the records will show that, and the increased yield which you will get from your richer land more than counterbalances any lesser price that you get as compared with the American wheat. I think you will admit that your lands are—taking the Dakotas or Montana or Minnesota, you take northern Saskatchewan or northern Manitoba, the average per acre is greater.

Q. You have not the figures; I suppose it would not be fair to ask you, of course, for the figures showing the yields?—A. I have them somewhere, not with me; I am speaking from memory, but I think my statement is pretty accurate. I would make a further statement in regard to that, in regard to your prices. You sometimes hear that banks are blamed for compelling farmers to sell their grain. I do not know that banks have compelled farmers to sell their grain. Over a period of ten years, in comparison, the advantage has been in prompt sale of your wheat, instead of holding it.

Q. I might say that I had a little experience myself, Sir John, this year. I sold some of my wheat promptly, and I got 72 cents per bushel. I sold a car last week, and netted \$1 per bushel.—A. Of course, but you take it for a period of years, and the figures are on record, I am not merely guessing at that, the figures are all recorded.

Q. I do not want to get into this, it is getting away from the subject, but the Dominion Bureau of Statistics in the last crop report, stated that the average

(Sir John Aird.)

APPENDIX No. 2

price that the Alberta wheat grower got for his wheat this year was 77 cents per bushel. I would like to ask you whether you think it is possible for the Alberta farmer to produce wheat at 77 cents per bushel?—A. It all depends upon the cost of your labour.

Q. You know our present production cost, I take it; I think your Alberta managers would tell you that.—A. Yes; I do not think there is much margin in it, unfortunately.

By Hon. Mr. Fielding:

Q. A margin of profit or loss, do you mean?—A. Unfortunately, you are up against labour costs.

By Mr. Coote:

Q. Would you care to give us an opinion, Sir John, as to whether we should produce wheat this year in the hope of getting 77 cents per bushel, or whether we should simply stand still?—A. I would be sorry to see the West go out of raising wheat to any great extent. I would advise this, and we have always advised this, that the farmers of the West should get into mixed farming as rapidly as possible; I mean cattle and truck farming, and also creamery and butter, and it is these things, as we called it in Ontario—I was brought up on an Ontario farm—this is "pocket money" and the pocket money of a farmer goes a long way to pay, you might say, his operating expenses. The same condition existed in Iowa which is practically the richest state in the Union. Originally it was a corn and wheat state. To-day, it is the greatest dairying and sheep and cattle state in the Union. Of course, it takes a little time, you cannot do it to-morrow in Alberta, but Alberta can do that, Albert butter, Saskatchewan butter, you know what their record was last year, and that is the advice I would give to the western farmer. You cannot do it in a day, or anything like that, it takes time.

Q. That is too long a subject for us to carry much further, but your bank has been as free, at least, as any bank, to give advice to the farmers, has it not, sir?—A. Yes, sir.

Q. And you, no doubt, heard what I read to the witness this morning about the banks advising the farmers to borrow money to buy cattle?—A. Yes.

Q. And would you, sir, care to assume some of the responsibility for the loss which these men sustained?—A. We have already assumed a very considerable proportion of it, I do not think we could afford to take any more.

Q. You assumed it in the case where you could not help yourselves, sir?—A. Yes, I suppose so.

Q. You never even thought of suggesting to the man who borrowed money for that particular purpose, to let him off with 6 per cent interest for a few years?—A. Supposing the thing went the other way, supposing he had made \$3,000 or \$4,000 on the transaction. Would he have given the banks half? It is his risk. The bank is not a partner in the business, you must remember. The bank would not, at least our bank would not, and I do not think the others would—I have a great regard for the other banks—advise a man to go into a business which they thought was going to result disastrously. As I said before, the cattle situation—I suppose you refer to 1920?

Q. 1919 and 1920.—A. It was not the fault of the bank or the farmer, it was the Fordney Bill that did it.

Q. I do not know whether I should ask you this question or not, and you need not answer it unless you like. Possibly you were one of those who opposed it when we had a chance of getting reciprocity with the United States.

The CHAIRMAN: I do not think you need bring that in.

[Sir John Aird.]

The WITNESS: I was not in politics. I know Sir Frederick referred to 1896.

Q. We can come back to the practical banking question. I take it the witness is one of the most practical bankers.

The CHAIRMAN: A lot of people in the West voted against reciprocity, too.

The WITNESS: They are not very happy over it to-day.

By Mr. Coote:

Q. Can you give any good reason to the people in Western Canada why they might expect a larger price for their wheat this year than they have had for the past two years?—A. That would be forecasting the wheat crop of the world. I could not say that. It all depends. The price is governed by the law of supply and demand. Argentine may have a great crop, and also Australia, and Japan is becoming a great producer; northern Africa is becoming a great producer. Japan as a nation used to eat rice. It is commencing to eat wheat. The United States,—this is the principle hope I can hold out to you, and I think it is a possible hope—the United States wheat lands have become impoverished. They have exhausted their lands, and their population is growing rapidly, and my opinion is that within ten years from now, probably five years, the United States will be the buyers of a very large percentage of your crop. They have no other place to get it and they have to have it. That is the hope.

Q. Do you think the banks can afford to carry those farmers until this happens?

The CHAIRMAN: It is not so bad as that, is it?

The WITNESS: That would not be good banking. We staked the wheat farmers of southern Saskatchewan, southern Alberta, to the limit, three and four and five years, and I do not know that we can go much further.

By Mr. Coote:

Q. You said the price of wheat was governed by the law of supply and demand?—A. Yes.

Q. If we should manage to increase our yield of wheat—A. It is governed by the law of supply and demand with this modification: I think there is some manipulation of the wheat market occasionally.

Q. If we should be able to increase our yield of wheat to 300,000,000 bushels next year and the rest of the world get a fairly good crop, will not naturally the price of our wheat be lower?—A. That would be a natural deduction.

The CHAIRMAN: If France and Germany recovered economically their monetary system, I suppose that would be a factor.

Mr. COOTE: In one year.

The WITNESS: It is difficult to predict. You might have a great production in Canada and in other countries too, but there might arise contingencies that we cannot see at the present time. There might come on another war, and I am not one of those pacifists who think we are not going to have another war. I think all the outlook shows we are drifting into war. Now if that condition arises, you would get back to high prices. You are asking me to predict something that is impossible.

Q. I will stop asking your predictions. We have a great problem in Canada. We are told we have not enough people and we should bring in more. Do you think we should spend our money to bring in more farmers and produce more wheat, when you yourself admit the price of wheat is largely governed by the law of supply and demand, when the outlook for demand is as poor as it is to-day?—A. I think you are misconstruing my answer. I do not

[Sir John Aird.]

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say go on producing wheat. I said go and get into mixed farming. I think the development of this country up to 1911 was brought about by new settlers. I think the development of this country depends on new settlers and a proper colonization scheme. I say do not abandon your principal product, but go into the creamery, cheese or cattle business. Get into the chicken business, or anything like that, and I would like you to understand that we are absolutely in favour of colonization being continued to get people into this country.

Q. Whether we have any market for the stuff they produce or not?—A. You will get the market alright. The people coming in will help to eat it.

Q. If they are going on the land they will surely produce a lot more than they will eat?—A. You have never fallen down very much in getting a market for your wheat.

Q. You have not held out very bright prospects for those farmers?—A. I think I am fairly optimistic.

Q. You said that if we limited the banks absolutely to 7 per cent, that you would have to withdraw a great many of them out of the west, of your branches.—A. Yes.

Q. Do you think if the farmer wants to be as sure of getting a dividend as you are of maintaining yourself at the present rate, that they would stay in that country and produce anything?—A. I do not know whether you will admit this. The farmer always makes his living out of his farm. The banker does not always make but very little more than his dividends to take care of his losses. I think you have to capitalize your labour in estimating what the farm is worth. For instance, I do not say that a farmer—and I think the farmer of the west is entitled to everything he could get, for what he goes through. I do not see why the farmer though, should expect a greater return from his efforts than an ordinary storekeeper, the ordinary plumber, the ordinary merchant who invests his capital.

Q. Well, Sir John, when you consider that the stuff that the farmer produces in Canada to-day has a purchasing power of, I think, not more than 60 per cent of what it had 10 years ago, can you honestly, as a man who knows the conditions to-day, say that the average farmer has any chance of making a living without making any interest whatever on his capital?—A. I think that is not the way to put it. I would put it this way if I were putting the question. You have to take it over an average number of years. For instance the farmer in 1920 and 1921, up to the beginning of 1922, got very high prices for his product, but you must not blame the banks just because the farmer has not got the money to-day. He must average his profit over a period of years. The farmer made a mistake and the banks are blamed for it. We suppose we are to a certain extent, in permitting—of course he had a right to do as he pleased—he bought lands at the highest prices and he exhausted his money that way, with the result that prices dropped, and he has that liability. But I think you have to consider there is a profit to the farmer over a period of years, just the same as the manufacturer or the merchant, the wholesaler or retailer. You cannot hope to make a profit every year. You cannot hope to make a profit on every transaction. The bank does not. I think that is the way to look at it, over a period of years. You have to take the results that way.

Q. You have not advanced or given any good reason why we may expect to make anything in the next few years, we have two years of loss now?—A. I said, go into the business of mixed farming. I believe your cattle are going to come out all right. I believe you have established a record for your butter, cheese and beef, and I think you are going to benefit by that, and I know you did benefit greatly by your cheese and butter this year.

[Sir John Aird.]

Q. Do you encourage your manufacturers to continue manufacturing, when the prospect for marketing their stuff at a profit is as small as the farmer's chances are to-day?—A. If there is a demand for their goods, the manufacturer, as a matter of policy, must remain in the business. He may not make any profit, but there is a demand for his goods and he says, "now I have had a lean year this year. Because I have had a lean year this year, if I have had a lean year for two years I am not going to go out of business. I have hopes in my own ability and the prospects of business in the future, and I am going to continue."

Q. I am not going to ask any more questions.

By Mr. Cahill:

Q. There is a question I would like to ask Sir John, as General Manager of the bank. There are approximately how many branches throughout Canada? 4,000?—A. Between 4,000 and 4,500.

Q. Say 4,000. What is the discretionary power as managers of these banks to make loans?—A. I would have to answer that question this way; in our banks and in the great banks we were the first to adopt the system of dividing our country into geographical districts. We have Newfoundland; we have the Maritime Provinces, which include Nova Scotia, New Brunswick, Prince Edward Island and Cape Breton. Then we have Quebec and Ontario. Manitoba and Saskatchewan are under one jurisdiction. Alberta is a single, and British Columbia is a single. In these geographical districts we appoint a superintendent. I was superintendent in the western district for many years, and we give them discretionary limits. In Manitoba and Alberta I should say their authority would be up to \$75,000.

Q. In branch banks?—A. No, at Winnipeg or at Calgary, and then it is only a question of telephoning or writing, and a question of 24 or 48 hours before the thing is done. In any important accounts, involving larger amounts than that, they can telegraph and that comes to the General Manager.

Q. I mean the local manager?—A. He has his discretionary limits as to the maximum. In smaller town it varies, depending upon the experience of the manager—it would vary I should say, from \$2,500 up to \$15,000.

Q. About what percentage of the 4,000 bank managers would be competent to manage a bank on their own account?—A. Branch banks?

Q. No, to be manager of a bank, with all the powers of lending money now enjoyed by a bank?—A. What percentage of our staff, do you mean?

Q. No, what percentage of the branch bank managers would you consider competent to manage a bank on his own initiative?—A. You mean the branch itself, apart from the superintendent?

Q. If there were no superintendents and if he were left to himself?—A. On the lines I have suggested?

Q. No, without any supervision?—A. That would be difficult to say. We have great confidence in some of our managers, particularly in our big centres, and the general manager is very largely guided by their recommendations. A general manager takes a great deal of responsibility upon himself.

Q. Perhaps we had better take this up at another time. I wanted to ask the General Manager, because I thought he would be more competent to answer the questions than some other member of the establishment. I was asking what percentage of the local managers of banks throughout Canada you would consider competent to manage a bank on his own account, if there were independent banks or if they did not have supervision?—A We never

[Sir John Aird.]

APPENDIX No. 2

appoint a manager on the lines I have suggested unless we think he is competent, because he has in one sense unlimited powers.

Q. You restrict him in his loans?—A. We restrict him in his loans; I think it is a wise thing, too. There is another thing I would like to clear up while we are talking about branch managers. Some have complained that we change our managers too frequently, and that they have had no experience when they go to new branches. Of course they are young men; we do not take a raw man from Ontario and send him out West; he has generally had five or ten years experience as an accountant and relieving manager, and has a knowledge of the district to which he is going to manage the business.

Q. What percentage of the 4,000 branch bank managers would you consider competent to go to the City of Winnipeg and handle the main office in Winnipeg?—A. In our bank, I would say in our principal offices, such as Moose Jaw, Regina, Calgary, Lethbridge and places like that, we have 15 or 20 men in the West who are quite competent to go to Winnipeg and take charge of the business.

Q. That would be 5 or 10 per cent or something like that; isn't that it?—A. Something like that.

The CHAIRMAN: I do not know whether all the members will agree with what Sir John has said this afternoon and this evening, but I am sure he has given a very interesting and instructive discussion of the Bank Act, and I am sure we are all grateful to him for his appearance before the Committee to-day. We will meet on Monday to consider the non-contentious clauses.

The Committee adjourned until Monday, April 23rd, 1923, at 11 a.m.

DISCUSSIONS

MONDAY, April 23, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. H. A. Maclean, the Chairman, presiding.

The CHAIRMAN: Does any member of the Committee desire to make any motions this morning?

Mr. CARMICHAEL: I wish to propose an amendment to section 21. Is it necessary to read it?

The CHAIRMAN: No, put it in.

Mr. LADNER: I have an amendment to propose relating to section 13.

The CHAIRMAN: Perhaps, Mr. Carmichael, you can tell us briefly what your proposed amendment is.

Mr. CARMICHAEL: The purport of the resolution is to make the maximum rate of interest chargeable by the banks 7 per cent.

The CHAIRMAN: Please hand it in. Now, Mr. Ladner, what is your motion?

Mr. LADNER: Mine was discussed the other day. It refers to giving notice personally to subscribers. Section 13, as it stands now, provides only for publication in the newspapers.

Mr. SPENCER: I wish to make an explanation. When the matter of the double liability clause was up a few meetings ago, I made some criticism of it, backing up my criticism with a statement which I had read in one of Sir Edmund Walker's pamphlets. I mentioned that as far as I could understand, Sir Edmund

[Sir John Aird.]

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did not consider that it was of very much value. But Sir Edmund eventually sent a wire to Mr. Fielding, reading thus:—

“In the Toronto Star Mr. Spencer of Battle River is reported to have quoted me as having expressed opinion that double liability not worth paper written on. Please place on record that I have never expressed any such opinion and that on contrary I consider double liability affords real safeguard.

B. E. WALKER.”

In the record I am reported as saying:—

“To back up my statement I only wish to refer to the statement that Mr. Good made when he read Sir Edmund Walker’s pamphlet.”
Then the Chairman said:—

“When it was read it did not support the statement that was made.”

When I made my criticism of the double liability clause, Mr. Good rose and read from Sir Edmund Walker’s pamphlet. In looking up the records, I find that on that particular morning only a partial record was being kept, and Mr. Good’s quotation was not put on the record. I therefore, wish, Mr. Chairman, to read what was in Sir Edmund Walker’s pamphlet, to which I had reference when I made my criticism. It is taken from his book, page 13.

“We can remember when the practical value of this power to call on the shareholders, in the event of the failure of a bank, for a second payment to the extent of the subscribed amount of the shares, was doubted by many. Shares were transferred just before failure to men unable to meet such calls and willing to be used in this manner, or shares were found to be held by men of straw who owed a corresponding amount to the bank. Or, again, many of the shareholders were borrowers for amounts far in excess of their holdings in shares, and the failure of the bank precipitated their failure as well, and they were thus unable to pay. Of course there were always some real investors among the shareholders, but the value of the double liability was a very variable and doubtful quantity.”

That was the statement to which I referred.

Mr. GOOD: Just a word in that connection. The statement attributed to Mr. Spencer in the record is as follows:—

“To back up my statement I only wish to refer to the statement that Mr. Good made when he read Sir Edmund Walker’s Pamphlet.”

I made no statement. I simply rose to read the passage that Mr. Spencer referred to because I happened to have a copy of the pamphlet here. I made no statement, so that the record in this respect is wrong. I did not purport to express any opinion on the question under discussion at all; I simply read the statement because I happened to have the pamphlet here.

The CHAIRMAN: This explanation will, I presume, make the record correct.

The Committee then proceeded to the consideration of non-contentious clauses in Bill No. 83, an Act respecting Banks and Banking.

Discussion followed.

The Committee adjourned until 4 p.m.

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AFTERNOON SITTING

MONDAY, April 23, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. H. A. Maclean, the Chairman, presiding.

The CHAIRMAN: In regard to our business to-morrow, in the morning we will have Mr. Powell of the Weyburn Securities Bank with us. Major Douglas is to address the Canadian Club of Ottawa to-morrow morning at 10 o'clock, and I understand that he desires to be free until he has finished that address. Whether we will require him in the afternoon, it is hard to say at present. Perhaps we will decide at the close of to-morrow morning's session as to whether we shall hear him in the afternoon.

Mr. GOOD: From what I heard at noon, Major Douglas expects to be called to-morrow afternoon. At first, he expected to be called between 11 and 12 o'clock in the forenoon, so that he would be free to deliver his address before the Canadian Club. I think your suggestion, Mr. Chairman, that he should be called in the afternoon has been conveyed to him; and I fancy that it will be quite acceptable to him.

The CHAIRMAN: We will proceed to the consideration of the clauses in Bill 83, which are con-contentious.

Discussion followed.

The Committee having disposed of a number of non-contentious clauses.

The CHAIRMAN: I would like to introduce to you Mr. H. O. Powell, General Manager of the Weyburn Securities Bank, Saskatchewan. Mr. Powell appeared before the Committee ten years ago, and gave us a great deal of valuable information. The business of the Weyburn Securities Bank is, as you know, altogether in the West, and very largely with agriculturists. I might also state that Mr. Powell began his banking career in the United States, and had practical experience in American banks before coming to Canada. I do not know whether he has any general statement to make, but we might spend fifteen minutes or so in hearing him before we adjourn.

Mr. COOTE: I would point out, Mr. Chairman, that we have a very slim attendance, and Mr. Powell is a very interesting witness.

Mr. SPENCER: I do not suppose that this would be the only opportunity we would have of hearing Mr. Powell?

The CHAIRMAN: That is a fair comment; the attendance is rather slim.

Mr. SPEAKMAN: You might have to go over the same ground again.

The CHAIRMAN: That is true. Have you any general statement to make, Mr. Powell?

Mr. H. O. POWELL: I have no general statement. I am simply here at your service to answer your questions and to assist you in any way I can. I shall be only too glad to do so.

The CHAIRMAN: Then we shall adjourn until to-morrow morning at 11 o'clock.

The Committee adjourned until Tuesday, April 24 at 11 a.m.

[Mr. H. O. Powell.]

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TUESDAY, April 24, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, please come to order. Mr. Maclean, we have copies of the Federal Intermediate Credit Banks Act of the United States; and these will be put into the boxes of the members.

Mr. W. F. MACLEAN: Will every member of the House get a copy?

The CHAIRMAN: He will get it in his post office box.

Mr. W. F. MACLEAN: If any of the members here want a copy they should have one, because I may have to ask a few questions of some of the witnesses myself.

The CHAIRMAN: Are there any motions or amendments to be moved this morning?

Mr. HUGHES: I have one, Mr. Chairman.

The CHAIRMAN: Mr. Hughes moves an amendment to section 125. Has anybody else any motion to make? Mr. Good moves an amendment to section 22.

Mr. H. O. POWELL, called and examined.

The CHAIRMAN: Mr. Powell, I would like to ask you one or two leading questions. You are the General Manager and President of the Weyburn Securities Bank?—A. The Weyburn Security Bank.

Q. Where is your head office?—A. At Weyburn.

Q. How long have you been in Weyburn, at the head of that bank?—A. This bank was organized and got its charter in 1910, and commenced to do business in the first part of 1911. I have been in Weyburn sixteen years. I was in private banking prior to the time of the bank being chartered.

Q. Were you engaged in banking in the United States prior to your association with the Weyburn Security Bank?—A. I became junior in the bank at River Falls, Wisconsin, in 1885; I was there two years, then went to Baldwin, Wisconsin, and was in Baldwin in 1887 and 1888 as assistant; then on account of my father's death I had to go home and go on the farm again. I was raised on a farm in Wisconsin. I stayed on the farm from the fall of 1888 until the fall of 1896. In the fall of 1896 some parties had a bank in South Dakota and wanted somebody to take charge of it; they got me to go to White Rock, South Dakota. They then converted that bank into a National Bank under the State Banking Laws of South Dakota and under the National Banking Laws of the United States. I left that position to go to Weyburn to take charge of the banking business of the Weyburn Security Company, a private bank, and the banking business of the Weyburn Security Company was taken over by the Weyburn Security Bank upon receiving its charter.

Q. Have you been with it continuously since the organization of the Weyburn Security Bank?—A. Yes, sir.

By Mr. W. F. Maclean:

Q. What is the capital of your bank?—A. \$500,000 and some odd.

Q. Is that under a general Act?—A. Under a general Act. We have a charter, just the same as the other banks.

By Mr. Good:

Q. \$500,000 and how much?—A. It is \$524,560, to be exact.

[Mr. H. O. Powell.]

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By Mr. Maclean:

Q. How much have you in buildings?—A. I will give that to you in a moment. We have \$208,324.25; that represents the buildings we use.

Q. More than two-fifths of your capital stock is in buildings?—A. That represents the buildings we are using at twenty-four points.

By Mr. Good:

Q. Are those all occupied by your bank?—A. We rent our premises in part in two instances, not all.

By Mr. Maclean:

Q. You sublet?—A. Yes.

By Mr. Good:

Q. What has been written off the premises that are owned?—A. I could not give you the exact amount. We try to keep our buildings within what they are worth, because we do not want to pad our statement at all. Most of our buildings stand at about what they cost us; they are worth that; we could not duplicate them at present prices.

By Mr. Spencer:

Q. What per cent do you write off every year?—A. We have no fixed percentage to write off buildings; we write our fixtures down by regular percentages, and we take care of all depreciation on our buildings, but we do not have a fixed percentage. It is purely a matter of how much they should be written down, to keep them within their value.

By Mr. W. F. Maclean:

Q. Do you write them up?—A. No, sir, we never write them up.

Q. But you have about two-fifths of your capital stock in buildings?—A. Well, we also have a reserve fund, Mr. Maclean, which you must treat as capital when talking about a bank. We have \$225,000 in reserve, so that we have, roughly speaking, \$750,000 invested in the banking business, which belongs to the stockholders.

By Mr. Hanson:

Q. What are your deposits?—A. This statement is taken from the last Government statement, not the last annual statement, but the statement of the end of March, 1923. Our deposits payable on demand, checking deposits, amount to \$976,560.67.

By Mr. Cahill:

Q. All in Southern Saskatchewan?—A. All in Southern Saskatchewan. We have deposits payable after notice, savings deposits, amounting to \$1,429,491.25. We have also Provincial deposits, largely made up of some of the sheriffs' accounts in different points where we are, amounting to \$12,926.81, and Dominion of Canada deposits amounting to \$50,340.43, largely post office accounts.

By Mr. Ladner:

Q. What was that?—A. These two last items are sheriffs and post office accounts. That takes up all our deposits of every nature as at the end of March.

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By the Chairman:

Q. How many agencies have you?—A. We are operating at the present time 23 actively, and there is one we run in summer and fall purely as an accommodation to farmers who cannot handily get to our branches.

Q. What is the biggest town you operate in?—A. Weyburn.

Q. How big is that?—A. 3,500 I presume; they claimed 5,000 during the boom.

By Mr. Good:

Q. In the towns in which you are operating, are there any branches of other banks?—A. The Bank of Montreal, the Bank of Commerce, the Royal and the Weyburn Security Bank. At Radville we have the Bank of Commerce; at Yellow Grass we have the Bank of Commerce. I am simply giving points where we have competition. At Stoughton we have the Bank of Nova Scotia, at Mossbank we have the Union Bank, at Assiniboia we have the Union Bank and the Bank of Toronto.

Q. That is about ten you have named where you have competition?—A. I think so.

Q. Including the Weyburn?—A. Yes.

By Mr. Cahill:

Q. What is the farthest north point where you have a bank?—A. At Osage. Osage is on the Regina-Stoughton line running south.

Q. All south of the main line of the C.P.R.?—A. South the main line of the C.P.R. I can give the boundaries roughly if you are familiar with the Saskatchewan geography. We have not anything east of Stoughton and Benson; nothing north of Osage, and nothing west of Assiniboia, and then we go south, we are at Tribune and Radville taking in that south territory that does business down to the boundary line.

By Mr. Hanson:

Q. Your business is principally with the farmer?—A. Practically all with the farmer.

Q. Short time credits?—A. Not always, no.

Q. There has been some question raised here as to an alleged gap between the loan companies and the banks, that is on long term credits for farmers, are you able to supply that need in your community?—A. We do not want long time loans; it is absolutely contrary to all good principles of banking where you are taking deposits which are subject to call on short notice. We try as near as possible to stay within the rules of banking which have been proven to be sound by long years of experience.

Q. Are you a member of the Bankers' Association?—A. We are.

Q. You approve then of the statements made by Sir John Aird in that regard?—A. I did not read them, I don't know what they were; I have only been here yesterday and to-day.

By Mr. Ladner:

Q. What is the average length of loans?—A. We do not make any hard and fast rule. Any banker is anxious to see his customers often, and for that reason banks as a rule do not care to have customers who do business in other towns and never come to the town except when they want to borrow money or renew or pay a note. There are a great many things entering into the dating of a note besides the wants of the bank and the wants of the borrower. We like to keep acquainted with our customer, we like to see what his team looks like when he comes to town, we like to see how long he stays around town when he

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does come to town—all those things are the straws which tell us which way the wind blows, as to whether he will pay the note when it comes due, and simply the dating of the note as to when it comes due does not always mean when we expect our money, and as I say a great many things go into the dating of the note. We try to give service, and try to keep in touch with our customers, that is the main thing.

Mr. LADNER: Some gentlemen were making suggestions that perhaps the witness has a concrete statement on some particular point that he is interested in and that the committee would be interested in, and we might follow the procedure that was laid down before that it would be more expeditious to have the witness make his statement first before any questions were asked.

The CHAIRMAN: He has no general statement to make.

By Mr. Ladner:

Q. In the area in which your bank functions, do you find sufficient facilities for farmers to obtain investment moneys from institutions other than banks, that is straight loans?—A. Except only a short time, there was a time after the war and during the war when everything was upset.

Q. Let us say since 1920?—A. But since the times were normal there has been no difficulty in getting reasonable loans on satisfactory securities.

Q. From what sources do those loans come?—A. Largely from the insurance companies and the real estate loan companies.

Q. What is the average rate of interest which those insurance and loan companies charge farmers?—A. They generally charge 8 per cent on five year loans; that is the general rule.

Q. And for fairly good security you find there is ample money in the districts in which your bank operates?—A. There has been no difficulty except when I say, and that should not be taken into consideration at all, but talking of normal times there has been no difficulty.

Q. Does your bank find it necessary in some of its branches sometimes to charge as high as 10 per cent and 12 per cent?—A. We do not charge 12 per cent unless where it is a minimum charge of 50 cents, where it is a small loan for a few days; but we do charge 10 per cent.

Q. What would be the circumstances which would make it necessary to charge 10 per cent?—A. The size of the loan, the risk involved, and the service given in connection with the loan.

Q. Have you ever lost a 10 per cent loan?—A. I do not know; I could not tell you what loans we have lost and what we have not; sometimes a gilt edged loan turns out worse than some of your others.

Q. It is interesting for the committee to know whether in loans of that class there has actually been a loss?—A. There are many things enter into the fixing of a rate of interest.

Q. My question is whether in your recollection you remember any loan in which 10 per cent interest was charged that you afterwards suffered a loss?—A. Yes, I can remember several. I think you will find the percentage of loss is greater on the 10 per cent loans than it would be on the lower rate loans. The risk is greater, and that is one reason why the rate is higher. We are trying to give service, but we have to get some pay commensurate with the service given.

By Mr. Hanson:

Q. Would you be good enough to tell what is the underlying principle governing the fixing of rates?—A. Take a municipal loan for instance, that is a little larger proposition than probably most of you understand it, they will have several different accounts, they may have local improvement account and

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different accounts that their deposits are sub-divided into according to the laws or the rules laid down by the department; in those accounts there will be deposits most of the time; for other purposes they will need to borrow money possibly for their schools, possibly for their roads, something of that sort, but we have on deposit money which belongs to the municipality at the same time that we are loaning them money. The amount of money that the municipality lets us use is always taken into consideration in figuring out what rate it should pay us for the money which we lend them. It is absolutely the same in connection with a borrowing customer; a man who pays up regularly, or we will say a man who will borrow in the fall after his crop is harvested or threshed and he does not want to sell, wants to keep it till spring, possibly he has to borrow at that time of the year to pay off his obligations, and that would be the only time of the year he will borrow, probably a good share of the year he has a fair balance with us. Now, a man in that position who furnishes money a good share of the year to help loan to other people certainly is entitled to borrow at a lower rate than a man who borrows 12 months in the year and probably 24 months in two years.

Q. He is a better risk anyway?—A. Yes, but he is entitled to a better rate when he furnishes money during another part of the year to help lend to other businesses. Then there is another thing that is taken into consideration; active accounts carry with them a good many little charges for service which give a little profit to the bank. All those things are analyzed in making up the rate that a man should pay. We have men on our books to-day paying 10 per cent who a few years ago paid 8, and we have men on our books to-day who a year ago paid 10 per cent and are to-day paying 8. We have no fixed rate. We analyze every man's account carefully many times during the year, we meet the men as much as possible and talk things over, and we give them the lowest possible rate we can according to the condition and circumstances surrounding the business with him. There is no hard and fixed rule for any of these things; they are all fixed by supply and demand, risk taken and service required, and what profit there is outside is taken into consideration in the interest rate received.

By Mr. Carmichael:

Q. What interest rate is charged municipalities in Saskatchewan?—A. As a rule nearly all municipalities last year it was 8 per cent, practically all municipalities last year had to be carried over for large amounts, and the rate last year to southern Saskatchewan was as a rule 8 per cent; at the present time the rate is better because of the fact that conditions are better.

Q. I presume you have municipalities unable to retire their loans during the current year, and supposing the loan is carried over into successive years, what is the rate charged?—A. No fixed rate; prior to last year the rate to municipalities was 7 per cent on all borrowings, and most of them were paid up every year; last year none of them paid up that we had anything to do with.

Q. Does your bank follow the principle of increasing the rate as soon as the corporation is compelled to carry the loan over?—A. No.

Q. In every case the rate has been the same for the old loan as for the current loan?—A. The same thing applies to a municipality; everything is taken into consideration surrounding the loan, and the matter talked over with the officials, and the situation explained, and they are told as soon as they can get things down to where they belong then it goes back to the old rate.

Q. Last year the old rate was 8 per cent.—A. Last year it was nearly 8 in all cases, but this year it is 7 per cent in nearly all cases.

Q. What is the rate to telephone companies or school districts?—A. School districts in rural districts cannot borrow.

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Q. Occasionally they make a small loan?—A. They cannot borrow; we do not loan them any money; the municipality has to borrow for the school district.

Q. Take rural telephone companies, what would be the rate to them?—A. I do not remember of a loan to a rural telephone company on our books at the present time. Most of them are in pretty good shape, most of them are under the new Act where they sell debentures to get their funds.

Q. Take town and village municipalities, what is the rate to them?—A. Generally 8 per cent, that is your towns and villages.

By Mr. W. F. Maclean:

Q. I would like to ask two or three questions of the witness. He has had an experience as a practical farmer and an experience as a banker; he has had experience as a banker in the United States and in Canada, and he has been asked about what is called in the States the barren area of credit not supplied by the banks, but more or less supposed to be supplied by the loaning companies. It has been pointed out that this barren area supplies principally to farmers who desire credit in connection with their crop or in connection with their live stock. Has he any signs within the constituency of his bank of this barren area that they say farmers are complaining of?—A. I suppose you are referring to loans to stock men for foundation stock?

Q. That is only one; say he may have a herd that he intends to market the three-year olds one year, and he has a herd of two-year olds, and he has to carry them—

The CHAIRMAN: You refer to long term rural credits?

By Mr. W. F. Maclean:

Q. Yes; is there a relief or a place where long term credits can be got by farmers as they want them?—A. As far as I know through our district the banks have been doing everything they could to encourage the idea of mixed farming, not putting all their eggs in one basket, and they have been doing everything they could to help get into this line; now we know quite a number in our district, and men in the room from our district know these different men that have been assisted to buy heifers, to buy sheep, to buy horses, and they have been assisted in many different ways with loans to get started into this mixed game, which is the game which will succeed in the end. Now, the banks are very willing and anxious to assist in this way as far as they can. The banks sometimes have had some pretty disastrous results from this assistance. I remember supplying money to one farmer—I did not, the bank supplied it, but I OK'd the loan—the bank supplied some money to a farmer in the Radville district, and we had been assisting some others down there very successfully and getting them on their feet, which naturally makes a farming district; we sized this man up and the situation, and we said, "He is all right, we will lend him money to buy some cattle in the fall," and next spring the cattle were all frozen to death. We made a mistake there in judgment as to whether he was capable or not. But those things happen right along. We are doing everything we can; the man who understands the stock game can always get what money he needs in our district to get feeders and stockers.

Q. And farmers can get loans on their crop too?—A. We cannot loan on a growing crop.

Q. He is in that condition, he may have a growing crop and he still may need money. Let me put it this way: here is this Act which they have passed in the United States. It is an Act of Congress, and it is based on the National Reserve Bank system. It is based on the creation of ten or twelve great corporations who have power of issuing debentures, who can rediscount their

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securities, these debentures, if necessary, in member banks of the National Reserve Bank system, and practically they have got all the credit of the United States at their service on the loans set out in this Act of Congress for the very purpose of giving increased money accommodation to a class of farmers who need it in the prosecution of their business. Have we any need in our western country for a banking system or an Act like this that has just been passed by Congress—and as the Chairman told you, the members of the Committee no doubt and the House will get copies of it—have we any need for an expansion of our credit system, I will not saying banking system, expansion of our credit system based on the National Reserve Bank system like they have in the United States to cover this barren area of credit of which so much complaint has been made not only in this country but in the United States?—A. You are speaking of this Bill that has been passed, a combination of two Bills, as I remember right.

Q. Quite so?—A. The demand came for something and they threw two Bills together in order to satisfy the people, and put it out.

Q. Yes?—A. Purely, I think, as an experiment.

Q. But it is in answer to a—?—A. I have found in business when somebody is experimenting with a thing and you have a chance to observe, that it is very good business to let the other people try it out first and burn their fingers and pay for the experience, and you step in later on and profit by the experience. The United States have far more money to invest in experiments than has Canada, and I think possibly it would be wisdom to let them experiment a little while before we try to jump into it.

Q. Is there a barren area in Western Canada, a barren area of credit more or less applicable to the farmers and is not filled or is not covered?—A. I don't think there is anything to speak of in Canada; in my experience in banking I don't think there is, between the real estate loans and the lending of the bank, in my own district, in the district of my bank, I don't think there is any such barren area as you are talking about.

Q. You know about the National Reserve banking system they have in the United States?—A. Yes.

Q. You know there is such a system?

The CHAIRMAN: The Federal Reserve Bank system you mean, or do you mean the National Bank?

Mr. W. F. MACLEAN: The Federal Reserve Bank, which practically places the credit of the nation at the service of not only the national banks but the State banks right across the nation.

Mr. LADNER: Mr. Chairman, I was approaching this question a little while ago.

Mr. W. F. MACLEAN: I will give way to the honourable gentleman on that, but I think I know something about it.

The CHAIRMAN: What was in my mind was that I felt Mr. Ladner would have a series of questions to ask upon that point, and I thought it better to cover other points first. Perhaps you might reserve this question.

Mr. W. F. MACLEAN: If I am permitted I would like to ask the witness this question. I will only take a few moments, then Mr. Ladner can ask all the questions he likes.

The CHAIRMAN: Go on then, Mr. Maclean.

By Mr. Maclean:

Q. Then as a banker and as a farmer does he say that in his opinion we ought to have in Canada a national reserve bank system like they have in the

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United States?—A. I presume you, Mr. Maclean, as an editor, remember very well when Joseph French Johnston was sent by the United States Government to Canada to investigate our banking system. Now you are asking a pretty broad question. In order to make it plain you have to go back in the history of banking. I don't know how much time you want to give to me.

AN HON. MEMBER: An hour or two.

A. First, the Canadian banking system is based on the principles that were laid down by Alexander Hamilton, and that system was adopted in the United States and proved to be a good system, but was defeated through jealousy. Now the National Bank system of the United States was a Civil War measure, and the circulation privileges were purely based on United States bonds, dollar for dollar, for the circulation, to make sale for the United States bonds. Every economist and every banker that studied knew that it was not a good circulating system. You will remember Mr. Forgan on the stand here, who understands national banking probably as well as any man living to-day, said that the United States had the poorest banking system in existence. That was before the Federal Reserve system was put in ten years ago. And one of the great troubles of the system was that they did not have an elastic currency. There was a fixed amount out at all times. When money was needed for special purposes there was no more to get. When it was not needed, it was all out. Which caused a jerky up and down policy in finance all the time. The bankers and economists tried to change it from time to time, but the fear of the people that the banks were slipping something over on them, kept the law from being changed. The thing that brought it to their attention so forcibly that they realized something must be done was the crisis of 1907. The crisis of 1907 was not caused by hard times, but by too much property and nothing to represent it when it was being moved. The banks jumped into the breach, and did things they had no right to do; they issued clearing house certificates which took the place of more currency. Then Congress got busy and passed the Emergency Currency Act to fill the breach. Then after that they appointed a very able Committee to investigate every banking system in the world. The report on the Canadian system was very complimentary, and what they did with the Federal Reserve Bank was largely to try and superimpose upon the individual bank system which they had in the United States, which had grown up through emergency in one way or another, the Canadian banking system. Now ever since I have known anything about banking, and studied banking since 1885 and on, I have always had held up to me in the States as the nearest model system, the nearest to the ideal system that had ever been devised as a working system—there have been a great many unworkable systems devised, but as a workable system it was the Canadian banking system. Now have I got anywhere near your point Mr. Maclean? I have talked a long while.

Q. You could have given me a shorter answer. Would you apply to this most admirable system as you say it is, the National Reserve Bank or Federal Reserve Bank system they have in the United States.—A. Why do we need to put on top of our system what we have already?

Q. How do you get accommodation then as a banker on the credit of the nation through the Dominion Government?

THE CHAIRMAN: Mr. Maclean, just for my own information, why do you use the phrase "the credit of the nation" when you are talking about banking this morning.

MR. W. F. MACLEAN: Because it has been used, it is the basis of the new changes being applied to banking in Europe and by the credit organizations world-wide who use that word.

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The CHAIRMAN: Put it in another way: is there anybody in Canada, an individual or a bank, getting credit, getting advances on the credit of the nation?

Mr. W. F. MACLEAN: On the credit of the State, we will put it that way.

The CHAIRMAN: Or the State either, that is the same thing.

Mr. W. F. MACLEAN: They are doing business with the State.

Q. Is not the Weyburn Bank discounting with the Government?—A. We don't owe the Dominion Government a dollar, except that little deposit.

Q. Do you buy Government legals?—A. We have to carry a certain amount of them, yes.

Q. Do you use them as a security against the issue of your own notes?—A. No.

Q. Do the other banks do it?—A. I suppose they do, but they can answer for themselves.

Q. Then I will put it to you this way, the other banks in this country are large borrowers through legal tenders of the Government in a round about way, security for their own notes and they accommodate a lot of business. You don't avail yourself of that in the West do you?—A. We don't owe the Government anything at all, and that right, as I understand it, that was given during the war, was to meet an emergency. Everything was upset, and they had to have emergency measures but I don't think it was intended to be continued for ever.

Q. Are they not using it now, the other banks?—A. I don't know, I cannot tell you.

The CHAIRMAN: Mr. Ladner, you might ask your questions now, as briefly as possible.

By Mr. Ladner:

Q. You put the question a moment ago, why superimpose the Federal Reserve system on Canada's which has it. Well now the United States system and Canada's before 1914 were very different with respect to the banking systems.—A. Prior to the Federal Reserve system they had the unit system practically exclusively.

Q. Giving them a great many banks?—A. They had a great many, yes.

Q. In Canada, we have 17 main banks?—A. 17 corporations, yes.

Q. With a number of branches. Would it not in times of financial depression, when the banks have to contract, be advantageous to have existing a central body to which the banks could go for financial existence, and in that way avoid too severely calling in their own debtors?—A. That would have been, to a certain extent. I have not seen any necessity for it yet except during the war emergency; but I think if you had any such system it would depend a great deal on how it was controlled. If it was a political organization, it would be disastrous. If it was an organization absolutely outside of the control of politics, it might possibly at times be of value, but it must be one that is not based on sentiment or theory, but based on experience and facts.

Q. Supposing in Canada there was a Federal Reserve Bank in which there was a Board of Directors, three or four experienced men in business, farming and manufacturing, to be appointed by the Government, and two to be appointed by the chartered banks, with the Minister of Finance or his appointee as a member of the Board, would you consider that as a Board, if it was given provision for, in the bank's interest, so that the essentials of sound banking would be carried out and at the same time a sufficient authority through the Government so that a disciplinary control could be exercised?—A. In our experience we have never found the time, except as I say through the peak of

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the war—when we have needed any such re-discount bank. I suppose that is what is what you are getting at, the re-discount bank.

Q. That is one of the features.—A. That is the idea of the Federal Bank, outside the circulation proposition which is to supply an elastic currency in the United States. You are getting at a bank of re-discount?

Q. Exactly.—A. We have found no necessity for any such bank in our experience.

Q. But during the war did you find it an advantage?—A. During the war, but no one should take wartime as governing; they always meet the emergency during war times with emergency measures.

Q. Was not the Bill passed to afford re-discount facilities during the war period?—A. The Finance Act was passed to meet the emergency. Other than that I don't know just why they passed it. Sir Thomas White could tell you that.

Q. Can you dispense with the Finance Act now and revert to the Bank Act as it was?—A. Our statement shows that we are not leaning on the Government in any way at the present time.

Q. With respect to the general banks of the country what do you say in that respect?—A. The larger institutions move slower than the smaller institutions. We are a very small institution comparatively with the majority of the banks in Canada. The larger bodies always move slower than the smaller bodies. We could probably be readjusted quicker than they could who took the bigger burden.

Q. I am told by men in the banking that the continuance of the Finance Act and its re-discount facilities is absolutely essential in the business, commercial and other interests of the country. What do you say about that?—A. I don't know. I am only a farmer banker out West. I don't know anything about these big commercial institutions. I am not interested in them, only in a general way. We are looking after the farmers out West.

Q. You know in the States where they have local banks, there is the question of the mobilization of reserves. Do you think that a situation could arise in Canada as it arose in 1907 in the States when the facilities of the Federal Re-discount bank would be of advantage to such an institution as yours?—A. No, I don't think so.

Q. By way of re-discount I am speaking of now?—A. No, I don't think so. If we have good paper and need to sell it, we can sell it in the market, and the facts are that in the States the note brokers are some of the biggest and best institutions in all the States, who sell the surplus notes of the individual bank. That is not known in Canada at all. The reason it is not known is on account of the fact that the banking system up here does not make it necessary; but down there, with an individual small bank, there are times of the year when they must have additional assistance and you can go to those note brokers and buy the paper of some of the best institutions in the world, and you can buy it at what it is worth in the market according to what the rate of discount is, which is fixed by supply and demand of money in the world market.

Q. They have the same thing of course in England. Have you ever taken advantage of the re-discounting facilities under the Finance Act?—A. We have, yes. I think we first did in 1917, but I have not that data before me. I think I am right that 1917 was the first we did. Prior to that time we took all our allotments of Government bonds as fast as they were allotted, to help the Government out. We asked for no assistance from the Government in any way. In 1917 we had to commence to borrow from the Government on our Government paper.

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Q. When did you cease taking advantage of the Finance Act?—A. We paid them up last summer.

Q. Now of course conditions in the West, some people have told us, to put it mildly, are not as bad as they have been in days gone by. Supposing the prosperity of the West should enter into expansion in the area that your bank serves; have you sufficient banking credits to accommodate that expansion?—A. Any natural expansion. When you talk of expansion, you may talk of a boom. They are two different things. Do you mean a natural healthy growth?

Q. A natural healthy prosperous condition, such as we are about to have in Vancouver?—A. That sort of growth as a rule takes care of itself pretty well, but this thing that springs up overnight does not take care of itself.

Q. I am speaking of a substantial healthy growth in the area of your bank. You have been long enough in the West to know what we understand by healthy sound growth, in which there would be new lands taken up, and increased building in the cities, certain manufacturing institutions commenced. In your judgment, do you think that in the area your bank serves, you have sufficient capital and facilities for meeting a situation of that kind?—A. I don't think there would be any trouble. We have gone through quite a long period and taken care of it fairly well I think.

Q. By a paper I received from Vancouver this morning, I learn that the Vancouver Trades and Labour Council is submitting certain resolutions to the Honourable the Minister of Finance dealing with the question of a Board of Banking Commissioners, who, among other things would have certain what I would call disciplinary control; the question I want to ask you is. Do you not think that a Federal Reserve Board, formed in the manner I have suggested, partly under the control of the Government, and partly under the control of the banks could not carry out a very important duty in the interests of the public at large?—A. From my own experience, I can only repeat that I see no necessity for it. I am not a theoretical chap, I am practical; I cannot go into these theoretical questions, because they are too deep for me. We do not need it, Mr. Ladner, as far as I know.

Mr. SHAW: The farmers need it.

By Mr. Ladner:

Q. As a practical banker, do you believe that as the volume of your business increases, as shown by the deposits and bank clearings, that your capital should be increased?—A. Our capital has been increasing right along, and we have been building up reserves. We started twelve years ago without any reserves at all, and our reserves have been set aside right along.

Q. What capital did you have when you started?—A. We had \$301,300 on the 31st of January, 1911.

Q. You have now \$524,000?—A. \$524,560.

By Mr. W. F. Maclean:

Q. And a reserve of how much?—A. \$225,000.

By Mr. Ladner:

Q. I put this question to you. In 1904 we had a total banking capital in Canada of \$90,000,000; in 1923 it had grown to \$125,000,000, an increase of \$35,000,000; the bank deposits have increased over four times, bank clearings have increased during that period over seventeen times, indicating the volume of business done. In your opinion, do you not think we must have some day, when this country starts to grow, a further increase in banking capital, or something in the nature of a rediscounting?—A. Whenever there is need for more capital, there will be a profitable investment for that capital, and as soon

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as there is a profitable investment, capital will hunt up that investment; but until the banking interests can pay dividends on more capital, I do not think you will find more capital put in.

Q. Do you think, Mr. Powell, as a manager of a comparatively small bank, that there is any likelihood of any new banks starting up, under existing conditions?—A. No, I do not think so. The banking field is so thoroughly covered that I do not know where anybody would start.

Q. Where would the increased capital come from?—A. Banking capital is being continuously increased now.

Q. But that is by way of their own deposits?—A. No. The capital of the different banks was increased; you will remember when the Bank of Montreal capital was \$10,000,000, now it is \$27,000,000. Nearly every bank has increased its capital since I went in.

By Hon. Mr. Fielding:

Q. Here is a vital question which I have asked before, but I am going to repeat it. There is a widespread opinion, chiefly in the West, that our banking system is perhaps adapted to the needs of manufacturers, merchants and so forth, but that it is not suited to the farmers of the country. You are operating in a farming community; do you find any difficulty in the farmers in your district getting reasonable accommodation for their business?—A. No, sir; I think the trouble is that they have had too much accommodation in the past. That is one of our troubles.

Q. Therefore there is no missing link between the mortgage bank on the one hand and the farmer on the other; do you think our banking system reasonably supplies the needs of the farmers?—A. I think it does.

By Hon. Mr. Stevens:

Q. I would like to ask three or four questions as to matters which are in the Bill now or on notice of motion. From your experience in the West, what would be the effect upon your business as a banker if the rate of interest was fixed by law at say 7 per cent?—A. We would go out of business.

Q. Would you like to elaborate that for a moment?—A. It is easy to elaborate. Our loans amount to \$2,400,000—\$2,406,000—and our profits for the last two years have been under \$50,000, about \$48,000. Take our average interest rate, and it runs about 9 per cent. Take 2 per cent off of that, that is, \$50,000 off of it, we would be doing business and taking the risk for the fun of doing it, and we would have to quit.

Q. In other words, you do not think the business can be run at a fixed rate of 7 per cent?—A. Not in our district.

Q. In clause 56 of the Bill, which deals with shareholders' audit, I want to ask you a question as a practical banker, in regard to that clause?—A. Shall I need to refer to it?

Q. Yes, if you do not mind. I refer to subsection 6 of clause 56—I will not read it all, I will just run over it. It provides for the appointment of two auditors who have no relation the one to the other at all, and later on the clause limits absolutely the service of those auditors to three years in any one bank. Will you give the Committee your opinion upon that clause?—A. It is a difficult matter in some cases to get auditors, in the West—I do not know about the East—who have had practical experience enough with farmer business to properly pass on farmer paper. We have had one firm of chartered accountants as our auditors ever since the auditing system was started ten or eleven years ago, and their work has been very conscientious. We have thrown every facility we could in their way, to help them out, at our bank. We consider there is an educational value, as well as other values. We find this, that an auditor who has been coming two or three years and has been doing conscientious work—

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I have one in mind at the present time—is giving us a better audit. As General Manager and Director, I am just as anxious to have that bank properly audited and any holes found as anyone else can possibly be, a little more than most people. We find that length of experience, if he is the right kind of man—and if he is not the right kind of man we talk it over with the man in charge and he tries to send us someone who is the right kind of man—gives us a far more satisfactory, a more thorough and a more intelligent audit; he gets familiar with our district, he becomes familiar with the names on the ledger, and becomes familiar with the class of business that is being done. In reading this new proposed Bill over I could not help feeling that it would be a very short-sighted policy, to make us change auditors every three years. I think that would be a very short-sighted policy.

There is another point, I don't know that you have spoken about it, and I do not know whether you are going to raise it, so you will excuse me if I raise it myself; there is a clause which says we must select auditors from cities where there is a head office of a chartered bank. There is no sense in that. There isn't another chartered bank with its head office west of us. The Union Bank has its head office at Winnipeg. We would be practically limited to the east, and a man coming from the east would not understand western conditions at all. I know auditors in Regina, Moose Jaw, and some of the other cities farther west who would be very capable and very thorough auditors. I have one man in view at the present time, who would be very satisfactory, and not far from us there is one of the joint auditors with the auditors we have at the present time, but with this going through we would have to go to Winnipeg. If you put through that three year proposition you are soon going to run out of auditors in Winnipeg, and you will have to go east. The eastern men do not understand it; they would have to go west for three years in order to get acquainted.

Hon. Mr. FIELDING: With that clause I intend to extend the list to include any chartered or public accountant authorized by the Dominion Parliament or the Legislature of any Province. The question is, how to get reliable auditors. The present suggestion is too restricted. It will save debate if I say that I intend later on to extend the eligible list, so that any man who is a member of a Public Accountants' organization or a Chartered Accountants' organization shall be eligible for appointment.

Mr. HUDSON: May I ask the Minister about the three years' clause?

Hon. Mr. FIELDING: If that clause should remain in, we can extend the time. There is something to be said on both sides. I will reserve that to a later stage.

By Hon. Mr. Stevens:

Q. Mr. Powell, would it facilitate or hamper your business as a banker?—A. I think it would lower the class of work being done by the auditors. The main thing is, to select the right kind of auditor.

Q. Do you think it would increase the risk of the shareholder?—A. You might have just as able a man as the other, but until he had been working for a little while in the bank he would not be familiar enough to pass on it, or as familiar as he would become later on.

Q. Now take clause 54; what is your opinion regarding the publishing in the annual and special statements of the new provisions in this clause, namely, the Appropriation Account and Contingent Reserve Account?—A. I think it would be very unwise.

Q. Will you give us your reason?—A. Yes; it is a practical reason, a reason based upon experience gained, not in the banking business but in the farming business as well. Every business has its fat and lean years, and anybody who

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thinks, or even reads the Bible, will know that lean years have been coming along ever since Joseph's time, and if you do not lay aside a little something during your fat years to take care of your lean years, you are liable to have your granary empty, as happened down in Egypt. Fat years in the banking business are not made by gouging anybody or by holding anybody up; they are generally made by activity in business, the little five and ten cent piece made all the way through, which, when business is slow, do not go far to pay expenses. When business is slow your overhead expense is fully as great and oftentimes greater, because it is often harder to do business under those conditions, than it is under good conditions, when you cannot cut the expense. Practically the only way you can make a banking investment attractive to the widow, the orphan or the trustee is to keep your bank paying practically a fixed rate of interest. When your return is good, when you have had a good year, one of your fat years, you should set aside extra reserves to take care of the lean year which is coming; in other words, make a little larger appropriation than you really feel is absolutely necessary, and in that way the banks can pay their five, six or seven per cent. on their capital stock to the investor who wants it. Bank stocks in Canada, as I understand them, are usually used as an investment largely on a par with Government securities. A bank that has been operating quite a number of years, has been paying its semi-annual or quarterly dividends for years, and some widow or some old gentleman who does not want to be worried with investments buys a few shares of this or that stock, figuring on getting so much every quarter on a fixed date, to live on. These big banks have had years of experience, and they lay aside a certain amount; I have never been in one of them, but we try to lay aside a little extra when we have a good year, and that is done for safety. We will say that this is all published, that it is made public property, and some fellow who has an axe to grind, or some fellow who has a theory and has not put it into practice and does not know how to put it into practice, picks up this statement, he immediately gets into print, the general public immediately gets stampeded, it is picked up, warped into all kinds of shapes, and the result is that an institution that is going along is talked about—the only way it can go on is to stay right in the service of the public—but it is lied about, misrepresented, and it is made almost impossible for it to do business as it should. Another thing, there is no one who knows as much about the paper in a bank as the people in that bank. One line of business might be prosperous in one year, another line of business may be prosperous in another year; one bank might have a larger percentage of one business than of another business; one bank makes a certain appropriation one year, and another bank makes another appropriation another year. The public do not know why, it is impossible for them to get inside and know the reason. You must trust your servants sometimes. No farm is better than the man running it. You have to trust people in some way, and if you hamper them with every kind of rule and regulation, and tie them down here and tie them down there, you are simply tying up your servant so that he cannot give good service. There are certain things that have worked out in practice for years and years, and you must depend a little upon precedent. Putting in all these different hampering rules, that have no real principle back of them, seems to me to be a mistake.

By Mr. Hanson:

Q. You have given consideration to the proposed section; have you given consideration to section 113?—A. What is that?

Q. That is with respect to the returns; I refer to subsection 5 of section 113, which places a limit upon current loans, what they are not to include.

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Have you given consideration to that subsection?—A. Yes, I have given considerable consideration to that.

Q. Do you consider that the tests set up in subsection 5 are right, and if not, why not?—A. I do not like them at all; as I said before, any bank that is not giving service is not performing its duty and is not carrying out the reason for its being given a charter. We have had some hard times in Southern Saskatchewan; a great deal of our territory has been settled for 20 years or more. Two of the districts, among the richest districts we have, were settled by some of the finest classes of citizens Canada has had anywhere; they were prosperous, and were doing well up until 1920. In the year 1920 two disastrous hail storms, grasshoppers and dry weather visited that particular territory. They did not even have straw; they had to ship in everything to carry their stock through. The district was getting into good stock; the people had quite a large number of herds of thoroughbred stock, good buildings, and so on. Those men who had been able to pay their way before that, could not pay anything in 1920. There was a repetition of the same thing in 1921. We went on, took care of those people, helped them to buy feed for their stock—we did not want them to get rid of it—we loaned them money to get feed for their stock, we loaned them money to buy seed, and we took care of them in every way we could hoping that next year they would get a crop, but they did not, it was simply a repetition of the year before. But they did get a crop last fall. Suppose this proposed amendment was put into effect the loans to these men at different points would have to be put into loans not current, or in other words put into loans in which people naturally think there is a question about. There never was a question about these loans. The men were men of substance, men of the right character, we knew they would win out; it was simply a disaster. These men this year got a crop and they are coming back; they could not do it all in one year; they paid us very little this year, but they did pay back taxes, back interest, and they bought the wife a new dress and the boys got a new pair of shoes. They went without things they could get along without in the hard years; this year very few paid up, but give them another fair year and a lot of them will pay up. That illustrates what would happen by this section. I do not know who framed it, I do not know anything about it, but whoever it was certainly had not had experience with our western farmers. It would hamper us wonderfully. Then there is another thing. Sometimes circumstances require that action will be brought on a piece of paper. The paper may be some of the best paper in your bank; as soon as you bring an action on a piece of paper that is not a current loan, and that will be a hardship on the bank and a hardship on every one; and the same thing with your Bankruptcy Act, as quick as a man makes an assignment that cannot be treated as current paper, yet the bank might hold 25 per cent margin of good collateral, first-class collateral, and might be in the very best of shape, and absolutely no risk on the paper, and yet that paper would have to be taken out. It seems to me that section as framed certainly needs some altering, some one should fix it up.

Q. Have you anything more to say on that?—A. No, sir.

Q. In reference to section 91, my friend Mr. Stevens has already interrogated you to some extent with regard to that; I would like to ask you is it desirable that a provision such as that should be violated as it is being violated in the West—you say you cannot live on 7 per cent?—A. We cannot; there is no use making any bones about it; the facts show that.

Q. Is not there a grievance however in the west or in some portion of the west with respect to the violation of that provision, and would it not be better, to use sporting parlance, to raise the limit?—A. Business history shows, I think that some of the Federal Reserve Officers in the States made the statement

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a short time ago, I cannot tell exactly where it was, but somewhere it was, made the statement that agreements on interest and usury laws, never had been effectual, and had never been workable, and always been evaded.

Q. That is to say where a fixed rate of interest was established?—A. Absolutely fixed, yes.

Q. It had never been observed?—A. No; money will seek the place where it will bring the return which is current in the different parts of the world, and money is just about as liquid as water; it gets out awful quick if the conditions do not suit it; and if you are going to get accommodation you have to pay what it is worth in the district, and as I have explained what it is worth before—

Q. Just in that connection what is the comparison between the rates paid in southern Saskatchewan and those paid by farmers in similar localities in the western States, which is the higher?—A. Montana and Western North Dakota farmers who have been in the district practically the same time that our men have been are paying from 2 to 4 per cent more than our men, and are not getting the accommodation.

Q. In other words our farmers are being used better than those across the line?—A. Pardon me, I will give you a little more detail on that. When I started in Wisconsin in 1885, the District of Wisconsin where I started was settled in the fifties, the regular rate was 10 per cent; the rate in the larger cities to business men was 8 per cent at that time. To-day the rate in Wisconsin, that is a district which is a dairy district, and a wealthy district, now runs about 7 and 8 per cent, short time loans to men of undoubted responsibility; you go to Central Minnesota and the rate runs up about one per cent higher; you get into Western Minnesota and the rate runs practically the same as our rate in southern and south-western Saskatchewan. I know these facts, for I have friends in those banks, and am in close contact with them. The rate as you go west into the Dakotas and Montana increases. The rate in all of these different districts has gone down as loanable funds increased. The reason the rate is as low as it is in Canada at the present time is due to your system and the ability to move funds from one part of the country to the other. The individual bank makes your rate of interest higher.

Q. You regard that as a desirable feature of our system?—A. I think so, yes. There is another thing about interest rates, and that is a principle that is observed by the Bank of England and the Federal Reserve Bank, and at the present time you know there is a little bit of a flurry in the States, building activities and one thing and another—some of the economists like Babson say it is not sound, but we do know that there are tremendous reserves of loanable funds in New York and in Boston and in Philadelphia, but in the face of that not long long ago the Federal Reserve Bank raised the rate of interest one-half of one per cent on rediscount. They do not want people to get to cheap money which would encourage over-expansion, expansion of an unsound nature; they only wanted to furnish funds for legitimate enterprises that warranted it. Your western farmer if he gets money too cheaply and too easily is very apt to be tempted to use money which he would be better off if he did not have, and if he has to pay a reasonable rate for the money he gets it is going to have a very good moral effect on him, and he is not going to borrow money that he can get along without.

Q. You think he needs the brake?—A. Every individual needs the brake. That is one reason why banks should not loan to their own employees; some one else would say no for him.

Q. What is your opinion with regard to the imposition on Presidents and General Managers of the terms imposed by section 113 and the returns as outlined by the Minister of Finance in this Bill?—A. You mean making it an indictable offence if some one else makes a false statement and he signs the return?

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Q. That is what it means?—A. That is the way I understand it; I suppose that is the way the rest of you understand it, to put it in little nicer terms, but that it seems to me is going to work against your system; you are going to get nothing by it, except that men will hate to assume the responsibility. We have a small bank, only a few branches, and I know personally the majority of our customers, and I know personally every individual working in the bank and visit nearly every branch at different times during the year, and yet I could not take and sign that statement and know that I was not signing something that might get me into trouble criminally some day. I know my men and I trust them; I pick them with all the care possible; but you cannot always have them act right; some man may go wrong that you trust the most; all you can certainly expect of a conscientious bank manager is that he uses the very best judgment he has; and I remember well the reply that Mr. Forgan made to Mr. Maclean ten years ago when there was a little criticism of bank men that were employed, Mr. Forgan said: "The banks do not make the man, God Almighty makes the man, and the banks have to work with what they can get." And it is still so. We have to work with what we can get. We do the best we can, but to make us responsible for something which we absolutely cannot know it seems to me is going a little bit strong.

By Mr. Hughes:

Q. I think the witness said that an auditor would not be so useful and capable as when he had been employed a little while, is that right?—A. Yes, that is practically it.

Q. What I wanted to know is this, what period of time would the witness mean by the phrase a little while?—A. That would depend a great deal on the auditor. The auditors that we have employed have been very conscientious and have done everything in their power to make our audit a good audit, something that meant something to us, and that they were willing to have go out over their name.

Q. Speaking of the ordinary auditor, speaking of the man with ordinary intelligence, what period of time do you think it would be necessary before he would be at the maximum of his usefulness?—A. The point is this, we are not going to have an ordinary man, that is not the intention of the Bill; he must have served for a certain length of time and he must be above the ordinary or he is not going to pass muster with the Minister.

Q. I mean the ordinary man under the Act?—A. It all depends on the man. One man would get on and do pretty well after he had been there one year.

Q. The average man?—A. Just to illustrate what I mean as to a man getting more valuable; we have one man who has been passing on our paper for three years. He has had very little to do with the making up of the statements; the man that makes up the general statement is a man probably better fitted for that, but not fitted for passing on paper as well as this other man; they try to send men for this work who are specially fitted for their particular line. One of the requests that this man left with us when he left after he had been there about a month in the winter time going over our party, examining about 85 per cent of our paper, as he does every year, was this: "When I come back next year I wish you would have a map prepared of the district that you are operating in; on this map put on the values as nearly as you can in districts as to what the reasonable value of this farm land is." He said, "In passing on these statements as a basis for credit, and in forming my judgment as to the value of the paper, it would assist me wonderfully if I knew whether this statement that I have before me puts the land value in at a correct value or an increased value or at a reduced value. Some men put them in at less than they are worth; some men try to put them in at more than they are worth." He

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got this idea after being there three years; he had been a good man before that, but probably another year he will get another idea.

Q. In your opinion a man becomes more useful the more experience he has, and three years would be too short a period of time in any bank?—A. Altogether too short.

By Mr. W. F. Maclean:

Q. Any limitation would be bad in your judgment?—A. I think so.

By Mr. Hughes:

Q. Three years would be too short a time in your bank?—A. If it would be too short in ours it would be too short in a big one.

Q. Would it not take a longer period of time in a larger bank?—A. Far more, and wider experience.

Q. And if there is a limit at all, if there should be a limit at all in your opinion it is entirely too short?—A. There should not be a limit. When a man outlives his usefulness the heads of the bank do not want him, because if they are conscientious they want the bank audited properly, because that means something to them.

By Mr. Shaw:

Q. What rates of dividend has your bank paid, just give me roughly in the last half dozen years?—A. I will start from the beginning.

Q. I do not want that?—A. We have paid three and a-half per cent semi-annual dividends on our paid-up capital; in securing the return you must take capital and surplus.

Q. 7 per cent is that what you are paying now?—A. Yes.

Q. You are not paying as large a percentage as the other chartered banks in Canada?—A. When you take into consideration the paid-up capital and surplus, which you must always take into consideration in figuring—.

Q. It amounts to the same?—A. Practically the same; we are all paying about the same.

Q. You stated that the average rate of interest secured by your bank was 9 per cent?—A. That is about what it is; it fluctuates.

Q. In that respect it has not changed from the time you gave your evidence ten years ago?—A. The rate ten years ago—

Q. You stated before the committee I think ten years ago that the average rate of interest secured by your bank was 9 per cent?—A. I do not remember exactly; I was trying to go over the paper roughly and—

Q. Let us not bother about that; you say that the minimum interest rate secured by your bank is 7 per cent?—A. No, we have made loans at 6 per cent.

Q. You spoke a while ago about your present average rate being 9 per cent, and you stated to some municipalities you loaned money at 7 per cent?—A. Yes, to some municipalities.

Q. Yes. You have some loans, do you suggest, at less than 7 per cent?—A. We have made loans at 6 per cent; we have one municipality we have made loans to at 6 per cent.

Q. Will you tell me what your maximum rate is?—A. As far as I know at the present time we are not charging over 10 per cent, except as I say on small casual loans where there is a fixed sum of fifty cents.

Q. So that so far as your bank is concerned I take it that section 91 of the Bank Act, providing a maximum statutory rate, might better be eliminated?—A. Better be eliminated, yes; supply and demand will fix the rate.

Q. I understand from you that in the neighbouring States to the south the prevailing rate of interest is from 2 to 4 per cent higher than the rate charged by your bank. You are aware, of course, that the United States is providing a

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very large fund of money for the purpose of assisting farmers in their activities in the States. Can you wonder under the circumstances that the United States has provided that large amount of money?—A. You must remember that that large amount of money is hedged around by a great many rules and regulations and conditions, and the man who is paying the two to four per cent more is not going to have paper which will pass muster by the man who buys paper for the banks.

Q. Your suggestion is then that the ordinary banking will be restricted to the more or less risky loans?—A. No, the case of doing business with an individual is so much more satisfactory than doing business with one of these other concerns that in the United States the individual institution has always been able to meet the competition from the State. Let me give you an illustration.

Q. But you see that you and I are talking from different points altogether. However, if the Committee has no objection I do not care.—A. You are trying to get something, and I am trying to answer your point and I want the Committee to understand what I am getting at. In the State of South Dakota, where I was banking, and we were also loaning money in the State, certain school funds could be loaned on real estate to farmers, and they were loaned on easier terms than the loan companies would make the loans, but the loan companies never had any trouble in competing with the funds loaned by the School Boards or the State School Board, of the school fund, on account of the red tape and one thing and another which surrounded those loans. So we never paid any attention to that. I do know this, Mr. Shaw, because one of our stockholders is running a bank in Montana, and he was up for the annual meeting in April, and he was a good deal disgusted with some of the things that were going on down there.

Q. Do I understand then from your observations that this advance of \$500,000,000 by the Federal Government for rural credits will have no effect in the States of Wisconsin, Montana, and the other States you have mentioned?—A. It will have very little.

Q. So it is practically useless for the Government to do it?—A. A great many of the authorities in the States say it is largely an experiment and will be of very little value. That I gain from what I read.

Q. What interest do you pay on deposits?—A. Four per cent.

Q. In that respect you pay more than any other chartered bank in Canada?—A. Yes, we have always paid one per cent more. We were paying one per cent as a private institution and kept it up as a bank.

Q. Have any representations been made to you by the Canadian Bankers' Association to decrease your interest rate to three per cent?—A. We have been asked if we could do it. We have never been told to do it. It has never been suggested that we did not know what we were talking about when we felt we had a right to pay four per cent.

Q. And you have not reduced it?—A. No.

Q. You have given us in your earlier evidence a statement of the banks' arrangements in your particular area. Now I presume that they are all charging the same rate of interest as your bank?—A. No, do you mean on deposits or have you switched to loans?

Q. Loans?—A. I don't know what they charge. I know we get our share of the business, that is all I know.

Q. It is likely they are charging the same rates?—A. I couldn't tell you a thing about it.

Q. Is there any competition?—A. The competition is very keen. The fact is that the competition in Canada between the banks is far keener than it is in the United States.

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Q. Is it likely then that the other banks in your particular area are charging exactly the same rate to borrowers or excess rates, I mean over and above your rates?—A. I don't know a thing about it. I know we hold our business, that is all I know.

Q. It would not appear to you as logical that probably they are charging as high or higher rates than your bank?—A. There is another thing comes into this as I have stated before; the service comes in.

Q. Yes, we have heard about that.—A. One man might get a rate of eight per cent at a bank and he might be perfectly willing to pay one or two per cent more at another bank when he took into consideration some of the side issues, the advice and assistance that he would be getting, all of those things go to hold business.

Q. You say that you cannot tell as to the rates charged by other banks in that area?—A. No.

Q. Another question. You have stated that you are familiar by actual practice with the American banking system?—A. Yes.

Q. You know that they have a Government inspection system in the States?—A. Yes.

Q. Do you favour that system?—A. The system in the States?

Q. Yes.—A. No, I don't.

Q. Don't you think that it affords some security to shareholders and depositors?—A. It affords some security. But you asked about my experience, I will give you that if you wish.

Q. No I didn't ask you that.

The CHAIRMAN: Let the witness answer the question.

Mr. SHAW: When I ask a simple question, I do not want to go into the whole realm of banking literature.

Mr. W. F. MACLEAN: But the Committee wants the information.

The CHAIRMAN: This is not a law court.

Mr. SHAW: I am only questioning on particular points, and if the witness wants to speak of other things, that is for the Committee to decide.

The WITNESS: If we were better acquainted we might get along better. You asked whether it had value, or whether I thought it had value to the shareholders and depositors. Now let me give you what the practice is in the larger banks. First they have the United States Government inspection, which has to be made regularly and published statements made afterwards. Now on top of that Government audit, in a good many of the larger cities the clearing house association also audits. Chicago I think was the first to institute that and Detroit, I think, followed, and that is getting to be common, I think, for the members of the clearing house association to be inspected by an auditor for the clearing house association because they do not depend on the United States Government audit. On top of that the better banks down there have what they call a shareholders' audit, an independent audit very similar to what we have here. The shareholders employ auditors to come in at a time not known by the employees, who audit this bank and make their report to the directors. A shareholders' Audit. That shows you how much the larger institutions place confidence in the United States Government auditing system. Now I don't say that that system has no value; it has value. But it does not give the amount of security that the bankers themselves or the shareholders, feel that they should have, so that they have an independent audit which is very similar to the very thing we have in Canada.

By Mr. Shaw:

Q. Then I take it from what you say that you have no sympathy with the movement for Government inspection in Canada?—A. I don't know as I

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know just what you mean by Government inspection. I suppose you are following up some other discussion that I am not familiar with.

Q. I am speaking of the term generally, inspection by Government; not as provided for in the Act but more along the lines of that in the United States.—A. I think our inspection here is better than that.

Q. That is you suggest that the shareholders' audit is more satisfactory and more of a safeguard than any system of Government inspection could be?—A. Yes.

Q. And you base your statement I think from your knowledge of the bank inspection conducted by the United States Government?—A. Just as I have explained here. That is the way they look at it down there.

Q. You gave evidence on this point in 1913?—A. Yes, I said that I thought it had value.

Q. And I suppose we can find by looking that up, exactly what your views were at that time?—A. Yes, I remember pretty well what they were. I remember I said I did not care to discuss it, because I felt there were others who knew more about it. We had not had any inspection in Canada at that time, and it was a new proposition.

The CHAIRMAN: General Mewburn.

By General Mewburn:

Q. I have a few questions I wish to ask. Referring to section 56 subsection 16 which prohibits an auditor, who is an auditor of the bank, undertaking any other work, or employment on behalf of such bank. What do you think of that section?—A. I think that would be really to the detriment of the bank and the customer. An auditor who has a certain amount of familiarity with the business of the bank and with the paper, would be in a far better position to do work for the bank on some of its customers' paper than someone who came in absolutely independent and had to do all the work over.

Q. You think that restriction would be detrimental to the interests of the bank?—A. Yes, I think it would be detrimental.

Q. One other question, Mr. Powell. You referred to the interest charged on loans in your Province, and also the interest charged on loans in the Western States; you also spoke of the amount allowed on savings bank deposits. Have you any knowledge of the rate of interest allowed in the Western State banks for money on deposit in saving bank accounts?—A. They pay any rate that is necessary in order to get the money, when they are hard up I have known them to pay seven per cent to get the money out there.

The CHAIRMAN: We meet this afternoon to hear Major Douglas. Mr. Powell will appear again before the Committee to-morrow or the next day.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING

TUESDAY, April 24th, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Order, please, gentlemen. Before we begin, I would like to reach a conclusion as to whether we shall meet this evening. Owing to a Government caucus to-morrow, we cannot have a meeting of the Committee to-morrow morning. I think we should meet this evening, if that is the opinion of the Committee. Then, gentlemen, we shall meet to-night at 8.30.

[Mr. H. O. Powell.]

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Gentlemen, we are to be addressed this afternoon by Major Hugh Douglas of England, who has come out here to address us upon the resolution that was referred to this Committee for consideration by Parliament, the resolution being the one introduced by Mr. Irvine. Major Douglas may be known to quite a few members of the Committee, but perhaps I should say that in recent years he has been a close student of economics and has written and published two or three well known books upon economic subjects, finance, and financial credit. It has not been his life's work; by profession he is an engineer, but in recent years he has given considerable thought and attention to the subjects which I have mentioned. I am sure we appreciate very much an opportunity of hearing Major Douglas, and I would ask him now to address the Committee. He will be under the guidance, at the start, of Mr. Irvine; later on, he may wish to address the Committee informally.

Major Douglas, will you please come forward.

MAJOR HUGH DOUGLAS, called.

By Mr. Irvine:

Q. Major Douglas, I have here a little booklet entitled, "Banks and Banking," which was sent to the Members of Parliament with the compliments of the Bankers' Association.

Mr. W. F. MACLEAN: Who wrote that?

By Mr. Irvine:

Q. You will have to ask the Bankers' Association, it is O.K'd by them. This purports to set forth the function of credit and currency as it is at the present time. May I ask if you have read that pamphlet issued by the Bankers' Association?—A. I have, sir.

Q. What is your opinion of it?—A. I think, sir, it is a very able, very carefully written presentation of the orthodox views on banking and finance, and I would say that the whole of the case of banking and finance as it stands at the present time might be said to stand or fall by the correctness of the statements which are made in that small book.

Q. Being of such importance, then, in your opinion, would you be prepared to answer questions on its subject matter?—A. Yes, sir.

Q. On page 3 it is stated, for instance, that the intention is to deal broadly with the basis of credit. From your perusal of the pamphlet, what would you say is the idea of the Canadian Bankers' Association of the ultimate basis of credit?—A. I read the book to which you refer, sir, very carefully, and I think it is not anywhere specifically stated what is the ultimate basis of credit, but I think it is quite fair to say that the whole implication of the book is to show that gold is the ultimate basis of credit.

Q. Would you agree with that?—A. I should disagree with it, wholly.

Q. Why.—A. I think it is erroneous in fact, in actual fact, and also erroneous and mischievous, to some extent, in intention.

Q. On what grounds do you say it is erroneous in fact, or why is it erroneous in fact?—A. I should say it is erroneous in fact because no one would expect gold in return for goods and services unless they were thoroughly well assured that they would be able to obtain goods and services in return for gold. Therefore, it may be said that it is the belief which attaches to the gold and not the gold itself which is in that case the basis of credit.

Q. You said something about the intention. Why would you say it is unsatisfactory in intention?

Mr. McMASTER: Mr. Chairman, the acoustics in this room leave much to be desired. Would both the able advocate and the witness speak in a little clearer and more distinct voice?

[Major Hugh Douglas.]

The CHAIRMAN: Speak a little louder, Mr. Irvine, please.

By Mr. Irvine:

Q. I was asking Major Douglas why he said that the presentation of the case by the Bankers Association was unsatisfactory in intention.

Mr. McMASTER: In intention?

By Mr. Irvine:

Q. In intention?—A. As I understand it, it was why gold was the basis of credit.

Q. Yes, that is referring to the basis of credit as laid down by the Bankers Association.—A. I think that the contention that gold is the basis of credit is unsatisfactory in intention, because the quantity of gold in the world bears no relation and can bear no relation to the possible production and demand and circulation of goods and services, and further, that when any real demand is made on gold, to anything like the extent that the claims on gold exist, the amount of gold in the world has always proved itself to be wholly insufficient to meet these demands.

Q. You would have noticed, I presume, that the words "currency" and "credit" seem to occur interchangeably in this presentation. Would you agree with that?—A. I should say that all currency is credit, but all credit is not currency.

Q. On pages 14 and 15 of this little book, under the heading, "Canadian Currency," occur the phrases "The primary essential of a currency is stability." "No currency has been kept stable that did not rest on a gold basis." What have you to say in that connection?—A. I do not agree with either statement. The primary essential of a currency is not stability, it is that whether stable or variable it shall provide for the maximum production and distribution of goods and services desired by the community. That refers to the first phrase. In regard to the second phrase, I should like to point out that this booklet, either specifically—I think both specifically and generally—suggests that the United States has continuously been on what is called a gold basis, and therefore might be expected to confirm these statements which were made, and I have here a table which originated with the Federal Reserve Board of the United States, which gives the index numbers in the United States for 1921, 1922, and parts of 1923. That table I will put in as evidence, but I might just point out that, taking 100 as the index figure for 1913, the average index figure for 1921 was 148, the average index figure for 1922 was 157, and the average index figure for January of 1923 is 165, and for February is 166. If that is what is meant by stability of a currency, then I do not understand what the meaning of stability is.

By Mr. McMaster:

Q. Would the witness say what these index figures cover, all commodities?—A. I was giving the index figure for all commodities, but in the same table are the analyzed index figures. You would probably like to have this table in evidence.

WHOLESALE PRICES IN UNITED STATES

Federal Reserve Board Index

The index number of wholesale prices in the United States, compiled by the Federal Reserve Board for the purpose of International comparisons, rose one point during February. Commodities entering into trade showed the greatest fluctuations during the month, both goods imported and goods exported rising seven points. Domestic goods showed no change. The groups, however, indicated that producers' goods rose in price and consumers' goods were still falling. The following are the index numbers (1913=100):—

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	Goods Produced	Goods Imported	Goods Exported	Raw Materials	Producers' Goods	Consumers' Goods	All Com- modities
1921 Average..	148	108	136	141	142	160	148
1922 Average..	154	123	157	166	189	157	157
1922							
February..	143	110	142	145	127	155	146
June..	158	124	163	167	141	164	161
July..	162	128	165	177	143	163	165
August..	162	127	162	184	144	156	165
September..	161	128	157	181	147	154	164
October..	161	135	163	179	150	156	165
November..	160	137	173	177	150	156	164
December..	160	138	174	177	149	157	164
1923							
January..	162	139	180	182	150	156	165
February..	162	146	187	182	156	154	166

The index number is compiled from 100 wholesale price quotations for representative commodities taken in the leading United States markets, weighted according to the importance of the commodity. Part of the quotations used are furnished by the Bureau of Labour Statistics, the rest are compiled from trade journals and private firms of recognized authority.

By Mr. Irvine:

Q. On page 17 of the pamphlet, the following statement is made: "The United States experienced in 1920 and 1921 a severe commercial depression, and the United States during that period held far more than its share of the world's gold. Not lack of money, but lack of confidence and inability to exchange commodities produced the prostration." What would you say in regard to that statement?—A. I should say that that statement was one instance of several instances of extremely careful wording of the statements which are made in this pamphlet. It is perfectly true that at that time the United States held most of the gold, but the commercial crisis did not occur to the United States, it occurred to the traders. The traders of the United States never held any of that gold, they merely held credits which were alleged to be created on the basis of that gold, and the commercial crisis to which Mr. Irvine refers was most unquestionably precipitated by the withdrawal of those credits.

Q. There is a chapter here on, "National Banks," dealing, I believe, with the Commonwealth Bank of Australia, from page 18 to page 22 inclusive. What do you think of the viewpoint as there set forth with regard to the national bank?—A. I think the intention of these pages might fairly be said to be to create the impression that the issue is between national banking, or state banking, the nationalization of banking and so forth, and private banking. I should deny that that was the issue, and I should suggest that there is no essential difference between the Commonwealth Bank of Australia, which is the bank under discussion, and any private bank. It is only a question of administration, and the real point at issue is the beneficial ownership of the material with which both banks deal, and that is, public credit.

Q. I understood you to say that the nationalization of the bank or the banking system is not the issue. If that is not the issue, what is the issue in your opinion?—A. The issue, in my opinion, is the one which I have just stated; that is the fundamental issue, the beneficial ownership of credit.

Q. On page 24 of this same book occurs the statement:—"money cannot be loaned or wheat sold profitably below cost." Do you agree with that or what have you to say on that point?—A. I think that is a very interesting instance of what I might call the work of the orthodox financier—and mind you in saying that I trust it will be understood that in all references of this sort nothing offensive is intended. The orthodox method of looking at this matter regards money as a commodity to be bought and sold, and it looks at the

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whole problem of production and distribution solely in reference to the financial result which is produced. If the financial result is not satisfactory, then the operation from that viewpoint is not satisfactory. So far as regarding money as a commodity, it is to my mind exactly like carrying on a trade in railway tickets, using railway tickets themselves as a means for carrying on the trade, not buying and selling railway tickets in money, but buying and selling railway tickets in railway tickets. The effect of that is to entirely stultify any reasonable use of railway tickets as railway tickets.

Q. On the same page it is stated—

Mr. McMASTER: I do not know whether we are permitted to ask questions, but I would like that point elucidated. It did not go through my head, that last explanation.

The CHAIRMAN: Oh yes, you can ask questions.

Mr. McMASTER: Would the witness develop that? I could not see the analogy. Perhaps it was my fault, but I could not see it.

The WITNESS: Of course, entirely from my point of view, from our point of view; money may be regarded as a ticket system. It is a method by which goods get over from the producing system to the consuming system. From our point of view money is a very unimportant or should be a very unimportant item in a system which comprises production, distribution and consumption. We feel very certain that the productive capacity is there. There seems to be a very general idea that the consumptive capacity is not met, and the thing which deals with the relation between consumption and production, is money. Now, if you deal with money itself as a commodity, and if you regard, let us say, a railway ticket, as being simply a limited form of money, which allocates a seat in a train to a specific person, you will see that if you begin to carry on a business in railway tickets using railway tickets as a means of settling for railway tickets, that is to say, if I carry on a business in which I endeavour to get two railway tickets for one railway ticket and never convert that into money, I would utterly stultify every attempt or I am utterly stultifying every attempt to make the tickets correspond to the transportation facility, and that is what I mean by saying that regarding money as a commodity makes it impossible to establish any relation between production and consumption.

By Mr. Cahill:

Q. How do you mean that money is used as a commodity?—A. It is admitted, I think, quite generally without further discussion that money is regarded as a commodity, because it is bought and sold, and rent, which we call interest, is paid for the use of it.

Q. It is rather a medium of exchange?—A. It is only a medium of exchange. It is also a commodity. People deal in money as they deal in wheat.

Q. In what way?—A. By making terms on which they will allow you to have the use of it. They deal in terms as a commodity when they make the terms by which they will exchange it. They deal in money as a commodity by every possible method that finance uses money at all, I think.

By Mr. Irvine:

Q. You would infer from the statement of this pamphlet, when it says that wheat or money cannot be loaned, or wheat cannot be sold below cost, that they consider money as a commodity?—A. I surely do.

Q. On the same page of this pamphlet it states "a national bank implies fiat money." What do you infer from that?—A. The only inference I can draw from a statement of that sort is, that in the mind of the writer of that

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statement there was a distinction between one sort of money and another sort of money. Now, I cannot myself see any distinction between any sort of money which performs the function of money. If any form of money satisfactorily performs the function of gold, then whatever that money may be, it is just as satisfactory for monetary purposes as gold, and I should state specifically in reply, that all money at the present time is to a very large extent fiat money.

By Mr. Marler:

Q. I did not catch the last part of the answer.—A. I should say in specific answer to the question, that all money at the present time is more or less fiat money in the sense that it bears no relation to the possibilities of production and consumption.

Q. It all has the same value?—A. No, I would not say that, because value is an almost impossible thing to define.

By the Chairman:

Q. Why should the currency of Germany not be quite so satisfactory in assisting in the production and distribution of goods as, say the currency of Great Britain at the present time?—A. Simply because the purchasing power of the same unit of it is less.

Q. Does not the question of redemption come in?—A. I do not think so.

Q. Not at all?—A. Not at all.

Mr. McMASTER: We did not hear that.

The CHAIRMAN: I was inquiring if the currency of Germany was any better or any worse than the currency of Great Britain, and he says he does not think so.

The WITNESS: What I really intended to say was that there is no fundamental difference, but the purchasing power of the unit of German currency is less than that of the unit of British currency.

By the Chairman:

Q. One is more stable than the other. What is the reason of that?—A. The reason of that is that as Germany is issuing currency at the present time without any reference to prices, and is not making any definite relation between the credit issue and prices. Prices tend to rise with the increase in the volume of the credit issue, but that is not an essential of credit issue.

By Mr. McMaster:

Q. That is to say if the German mark was issued in quantities, which were merely commensurate with the trade in Germany, the great inflation in prices would not occur?—A. No, if the German mark were issued in such a manner that prices could not rise in proportion to the German mark—by that I do not necessarily mean the fixation of prices—then the prime argument against inflation would disappear.

By Mr. Woodsworth:

Q. The value of gold is dependent more or less on the law of supply and demand. Is fiat money subject to the same law?—A. No.

Q. What is the law that regulates the value of fiat money?—A. The relation between prices and fiat money.

By the Chairman:

Q. The currency of Austria is more stable at the present moment than it was last year and preceeding years. How is that brought about, Mr. Douglas?—A. I should very much like—and I am particularly interested that that ques-

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tion has been asked; it was unexpected and I do not know whether I have the exact reference that I wanted, because if I had it would save a certain amount of time.—The kronen in Austria has been for the moment stabilized in regard to its exchange rate in respect to other countries by heavily increasing taxation in Austria and bringing the budget nearer, though not yet, to what is called a "balanced budget." The result of that has been to create the most widespread wave of unemployment in Austria, to stir up a lot of political trouble in Austria, to precipitate the people of Austria from a condition of comparative prosperity in 1921, when the kronen was rising rapidly, in relation to other people, to a condition of great distress at present, and I should be very glad to have an opportunity of putting in, in regard to that, two extracts which I made only last night, although I have seen them for some time.

Q. In Austria they removed thousands of civil servants which were unnecessary. That would of course cause some unemployment. Would you approve of that? In fact, I think Austria agreed with the League of Nations, the Council of the League of Nations, to do that. Would the continuation of paper money have kept these unnecessary employees in the civil service?—A. I cannot see any possible argument which can be adduced for keeping unnecessary people employed anyway.

By Mr. Good:

Q. Just one question in connection with the stability of currency. I was rather surprised to hear the witness say, if I understood him right, that it was a comparatively immaterial matter whether or not a currency was stable. My idea of a stable currency is that it should be worth in commodity and services approximately the same or as nearly as possible, the same now as last year, and as next year, so that any obligations entered into between two parties may not change in the interval between the time they are entered into, and the time of settlement. I think perhaps the Committee would like some further elaboration on that point. I was not quite satisfied with the explanation. Possibly I misunderstood it.—A. That is a very important point, and I understand the confusion possibly which that statement might lead to at first. The point I wanted to bring out in making that statement was that whatever the maximum of production and distribution of goods and service, either to the limit of capacity or the limit of real demand,—What ever are the conditions of the currency to produce that condition, then that is the determining thing, not either the stability or the variability or anything else of the currency. The currency should be entirely subsidiary, whatever its movement one way or another may be, to whatever is necessary to meet the primary contention; that you would be able to produce and distribute either up to the limit of capacity or the limit of real demand, and currency should conform to that need irrespective of whether it is stable or whether it is not. I am not saying it should be stable or that it should not be stable. I am merely saying that that is not a primary necessity.

Q. Am I to understand, that if, for instance during a period of rising prices production was stimulated, distribution encouraged so that people were really better off than there would then be no ground for objecting to the increase in the prices?—A. If everybody was better off then I should agree, but under a condition of rising prices I find it very difficult to see how everybody could be better off.

Q. I was going to ask in that connection as to whether or not there would not be a fundamental injustice in the changing of the obligations, for instance, let me put it this way: I build a house this year, if that house is to be worth half as much next year it will probably prevent me building it now; if it is to be worth twice as much next year my effort to build it will be altogether unwise, it will be depending on conditions which I think must be unfortunate—what I

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mean is this, is there not a question of justice in the relationship between one party and another in entering into an obligation? Let me put it this way; supposing we would admit that a great many advantages come to a country during a period of inflation, are there not corresponding disadvantages? If so are the disadvantages less than the advantages, and therefore should we welcome the period of inflation? Are they more than the advantages? This seems to me an important question and I would like further light on it?—A. I think that there is a very important point involved in that, and it is a very difficult point to deal with shortly. I think that all these questions of justice in regard to commercial affairs arise out of a specific situation which renders them very important. I might perhaps be allowed to give an analogy of what I mean. If you had a party of men who were crossing the Sahara Desert and they only had a very limited quantity of water, it becomes a matter of very great importance, and it becomes a really practical thing that you should distribute that water amongst them justly; but if you have the same party, we will say of ten men, crossing Lake Superior you do not waste very much time in discussing whether one of them has two or three more drops of water than the other fellow has; and I think that you will find you can deal with that situation very much better by taking the people out of the Sahara and putting them in a boat on Lake Superior than wasting time about the exact division of the drops of water.

Q. I see the point anyway in part. I hope I am not interrupting Mr. Irvine, but there is another question I should like to ask. I understood the witness to say, in commenting on the Australian Commonwealth Bank, that there was very little difference between a national bank and a private bank; I want to submit this to him and ask him for his opinion as to whether or not those who control currency or credit at the present time do not pretty well control industrial policy, and if that is so, whether it is not much better that industrial policy should be controlled by the people acting collectively through the state, whether we conceive that to be, in Canada, the Federal Government or Provincial Government or Municipal Governments or local societies, than it would be to have the control vested in a relatively few men? —A. I feel that answering this question I shall be outraging the atmosphere of the democratic House of Commons, but the question must be answered. I do not believe that the detailed administration of such things as industry, apart from general policy, can be administered by the people collectively. I do not think that the people collectively have any real control over the way their taxes are spent, I don't think they have very much control over the amount of taxes that is taken off them, and I do not see any reason to assume that they would be any more successful in collectively controlling such things as you suggest; but I do agree that the control of credit controls industrial policy.

By Mr. Woodsworth:

Q. I am afraid I did not understand what determines the value of fiat money, if not its quantity or its volume what does determine its value?—A. What it will buy.

Q. But that is what we mean by the value, what it will buy; is it not the quantity that determines how much it will buy?—A. Not necessarily.

Q. Would you explain again what it is. We were speaking a few minutes ago about gold, originally gold was the standard, the volume of gold or quantity in circulation determined the value; gold was the measure of all things, that is that the other things rose or fell in accordance with the amount of gold; now, we have substituted for gold what you term fiat money?—A. That is not my term.

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Q. It was used by you a moment ago in answering that all money was more or less of the same character if it functioned in the same way?—A. Yes, including gold.

Q. My question was as to whether all money was not subject to the same laws that gold would be?—A. Only under the present financial system.

Q. If there is no fixing of prices or as long as our present system continues then all money is subject to the same laws of value that gold is?—A. Including gold.

Q. And then under those circumstances the amount of money in circulation has a direct relationship to prices?—A. Under the present financial system, yes.

By Mr. McMaster:

Q. May I ask a question, a hypothetical one? Let us suppose that the British Isles had no gold, no silver, but that the government issued let us say twenty million pounds to take care of the needs of the people; suppose the government without any increase in business increased that issue from twenty million to one hundred million pounds, would the witness think that prices would rise?—A. Under the present financial system, but not necessarily.

Q. What would determine the price in the first instance when the outstanding credit was twenty million pounds if it were not the relationship between the twenty million pounds and the services and goods which had to be transferred from person to person, would there be anything else to determine the prices except that relationship?—A. Yes, you can make anything determine the relationship depending upon what distribution of the goods and services to which the money refers, you desire.

Q. Is it your idea that it would not be the amount of outstanding credit face to face with the amount of goods and services, that that would not determine the price level in the country?—A. Not necessarily, need not.

Q. Would not that be one of the main contributing factors to determine the price level?—A. That is the very axiom of the present financial system that it is one of my objects to explode.

By Mr. Woodsworth:

Q. In saying that all money is much the same, supposing, as we had some years ago, a large issue of Victory Bonds, insofar as they function as money passing from hand to hand they would have the effect of increasing prices, of inflation?—A. Under the present type of financial system it is very probable they would, yes.

MR. SHAW: I wanted to make a suggestion. It is very interesting indeed to chase these very little things to cover, but I would like personally to get a comprehensive survey, if we could, and then it would be much more easy, I know for myself, to follow the discussion subsequently, if we could get a comprehensive survey at the outset by the witness, and then subsequently question him in this way; I think we would be more instructed.

THE CHAIRMAN: I think you are right. I think that is quite a proper remark, and I was hoping that Major Douglas would address the committee exposing to the committee his scheme of a substitute financial policy which he would like this country or the world to adopt.

MR. IRVINE: For the present I was trying to get the opinion of Major Douglas as a student of this question on the basis and function of credit as set forth by the Bankers' Association, and if you would permit I would like to continue with that investigation until we are through with it, and then Major Douglas may be called upon to state his own position.

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Sir HENRY DRAYTON: I just suggest to my friend this, bearing in mind his own object, considering his brief, that he would make far better progress if we were to first hear the Major fully on his theory, and then having been seized of the theory we are in a very much better position to appreciate the force of his criticisms in connection with the different points that my friend now seeks to raise.

The CHAIRMAN: I think so.

Sir HENRY DRAYTON: I think very likely a whole lot of these questions would be entirely unnecessary. We would then know the basis of the Major's objection, and I think it would be better for the Major.

WITNESS: If I might refer to Sir Henry Drayton, I should very much like to be allowed to bring out the differences between what you might call his statement and my statement first, if I might, and then the discussion of those differences can be sifted out from what is irrelevant to the general position, if that would suit Mr. Irvine also.

Mr. IRVINE: Yes; that, Mr. Chairman, is my policy in this regard. It may not be the best tactics, Sir Henry Drayton's tactics may be better, but I have selected this. On page 25 of the pamphlet which we have been examining occurs this question: "Are not the farmers aware that the loanable capital of the country is the savings of industry?" What is your opinion on that question?—A. I think that again is a really remarkable instance of extremely careful wording. I should like Mr. Irvine to notice that the phrase is not "the loanable capital of the country is the savings of industry," but the phrase in the book is as he read it, "are not the farmers aware that the loanable capital of the country is the savings of industry?" You will notice the book does not say that they are, but it says, are not the farmers aware that they are, which seems to me to be very clever, because the loanable savings are not the savings of industry. It is of course—

By the Chairman:

Q. What are they?—A. In the first place you cannot in the sense that the banks there mean it, loan capital. Loaning capital means loaning somebody a harvesting machine or something of that sort, which is not meant by this phrase. Capital has nothing to do with finance at all. What is loaned by the banks is practically fresh purchasing power. It is not the savings of industry, and it is a mortgage on future production.

Q. Does not the great portion of capital represent the savings of industry, and by industry I do not mean plant, manufacturing industry, I mean the industry of the individual?—A. No, I do not think that. I think as a matter of fact that this booklet possibly by accident admits that statement. I think I can possibly find the quotation in the book itself.

By Mr. Forrester:

Q. Would not that be truer in regard to Canada than England?—A. I could not actually answer it quantitatively; I do not know what the exact relation would be; but I should say broadly speaking. It is on page 47 of this booklet. "Nearly all loans are made by credits entered on the books of a bank or by cheques or by drafts or by acceptances; these pass into the general clearings of the community of which only the resulting balances are settled in money. Hence the mere plentifulness of money is only remotely connected with the supply of loanable funds"—that is the Banker's own booklet.

By Mr. Irvine:

Q. That is inconsistent with the statement just made?—A. Yes; that is inconsistent with the statement just made.

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Q. This booklet says "Decline in prices produced the shrinkage in loans and circulation, not vice versa. Did the reduction in Canadian bank loans cause the price of wheat to fall in Liverpool?"—A. There is no doubt whatever that the reduction in Canadian Bank loans did cause the price of wheat to fall in Liverpool; it was one of its objects. The result of calling in the credits or refusing to issue further credits to carry over for some length of time, or to cause everyone to throw all stocks of all descriptions on to the market, because they could no longer hold them up for the same or a higher price, the result of throwing those stocks in the market depressed prices, that is the answer.

Q. Continuing, I find the following:

"That argument is founded upon the misconception that money and credit are the creation of government, when these are the product of industry, and the fallacy that currency emitted from a printing press derives value and stability from a government stamp and from no other source."

What have you to say in regard to that statement?—A. Well, I was very much impressed with that statement, because it is another instance of supremely careful wording, and I think shows the great importance which can be attached to this booklet, because such great care has been taken in its preparation. You will notice that it is not stated that money and credit are the creation of industry, it states that they are not the creation of government and they are the product of industry. It does not state that they are not the creation of government. Now, as a matter of fact, money and credit are neither the sole creation of government, industry, or of the government or industry, they are the joint creation of a stable government, a functioning industry and a consuming public, and if you take any one of those three out, there can be no such thing as public credit.

Q. In the chapter in this book entitled "A financial catechism," on page 28 I find this:

"If paper currency printed and issued by Governments was always accepted at its face value, there would be no need for taxation."

What have you to say to that?—A. I should say that it was "A Daniel come to judgment." That is exactly what I should say—there would be no need for taxation. You would be able to provide for what we provide for now by taxation; you would be able to provide for it by a minute general rise in prices, prices however being very much lower than they are at the present time.

Mr. GOOD: I do not understand that remark, Mr. Chairman. I would like the witness to develop that a little bit, if I may interrupt.

WITNESS: Well, suppose you have a general level of prices which we will call 100; without going into any theories on ranges of prices below cost, or anything like that, but suppose at the present time you have a general level of prices which we can refer to as 100, and by some method which it is not necessary to enter into at all you raise prices to a general level of 101, you are then putting a one per cent tax on everybody, and that is all you are doing. Now, if you start with a level of prices which is very much below 100, when you get to that level by some process or other, and having got it down to that level you raise it again a little bit, then the difference between what you had got it down to and what you have raised it up to is taxation, and it is equal with any other form of taxation.

By Mr. McMaster:

Q. If you just go up another one per cent next year, if you go up higher and higher every year by one per cent, you would get a final addition to the

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price level?—A. I am not putting forward any form or scheme in what I am saying, I am merely giving you a hypothetical illustration of the fact that a slight rise in price levels constitutes a general taxation of the public.

By Mr. Irvine:

Q. To continue:

“At various times and in various countries the notion has prevailed that the government stamp on a piece of paper made money of the paper; when the fact is that only the ready facility to exchange the paper token into gold gives it the quality of stability in value and makes of it real money.”

Have you any statement to make in regard to that?—A. What page is that on?

Q. That is on page 29.—A. Well, I should say that the point which is involved in that question is absolutely vital. Gold as a commodity has one of the lowest possible use values; it is very useful for stopping teeth, and it makes very good jewelry I suppose, and all that sort of thing, but its use value is clearly very low. Now, the only reason which will induce people to take gold is that they are assured, or think they are assured that they can get something for the gold. They do not want the gold as a primary object, it is only an intermediate object, and if you can satisfactorily substitute something for the gold, then gold loses all value except, as I say, for stopping teeth and so forth. It is absolutely necessary in that connection to realize that to get a satisfactory money system, you must use money as a mechanism of exchange, of goods and service, not a mechanism of one sort of currency for another sort of currency. The whole thing is a question of distributing, exchanging and dealing with goods and services.

By Mr. Good:

Q. In that connection, what is your opinion, if you have one, of the effect or the probable effect of demonetizing gold, the effect upon its value I mean?—A. Well, it would depend entirely upon the method you adopted for demonetizing gold. That would involve questions of the control of industry, whether you wanted to go on mining gold; if you wanted to go on mining gold, I would say that gold would begin to take a value which represented its cost of production.

Q. Well, is it not true that the cost of producing gold is very high, and that it approximates its present monetary value?—A. Its commodity value. That may be so. I should think it very probably is so, and I should think that if gold were demonetized probably the demand for gold might or might not be affected one way or the other, it would depend upon what uses could be found for gold as a commodity.

By Mr. Irvine:

Q. To continue

“If the Government monopolized the issue of currency, would the supply not be more abundant?”

That question is asked in this Financial Catechism. Have you an answer to that question?—A. That is on page 29 I think. It goes on to say “Not of a sound currency.” Well, I think that is perfectly true, that the supply would not necessarily be more abundant. The fact is that currency and credit issued by a private bank or a Government bank is quite equivalent in its use; it does not make any difference whether it is issued by a Government bank or a private bank, and the monopolization of the issue of credit and currency by a Government bank would not per se, would not of itself affect the quantity of it necessarily in use.

[Major Hugh Douglas.]

Q. Another question propounded in this catechism is this:—

“If the Government loaned \$500,000,000 to the farmers of Canada in the form of Dominion notes would not trade become active and people generally more prosperous from the circulation of so much currency?”

The answer goes on to say:—

“Not at all. In the first place, if the Government went into the banking business, it could not limit loans to any particular class. All sorts and conditions of people would want to borrow and the Government could not discriminate.”

Have you any opinion to offer upon that question?—A. I would say as a matter of business that that is exactly what has happened in Germany. They have had the issue of large blocks of credit, which functioned as purchasing power, because there is a time lag between prices and the issue of this credit, and because of that lag and because of the temporary increase of purchasing power which was provided in that way, there has been a tremendous accession of prosperity in Germany, from the economic viewpoint, that is to say, that up to within a few months ago Germany was economically far more prosperous than probably any other country, that is to say, she had very few unemployed.

By Mr. McMaster:

Q. Will you explain the difference between economical prosperity and the ordinary common garden variety of prosperity?—A. I will. Economical prosperity, as I use it in that sense, means that you have your production system functioning at a furious rate, but it does not imply, as I was using the phrase, that that condition is a condition of any continuing description or stability, but for the moment the machinery is going around very fast indeed.

Q. On the principle of a squirrel in a cage?—A. Not at all. The actual production of goods and services in Germany during let us say 1922 was probably far in excess of the production in any area of Germany either before or since the war.

Q. But their imports were very considerably greater than their exports, if I remember their figures correctly?—A. Only in money, not in actual goods.

MR. MARLER: Mr. Chairman, what result are we trying to arrive at? We are touching a lot of very high spots. What is the result?

MR. IRVINE: It is very possible, Mr. Chairman, that we may never reach any result. That will depend largely upon the Committee and the individuals in the Committee. If I may state the motive of the inquiry in this regard it is this, that we have here set forth the interpretation of the present currency and credit system now in vogue, by the Bankers' Association, who have control of that currency system. I am trying to inquire into what it is to us, if they can state the case thoroughly, if they can give us an assurance that this thing is going to continue, if it is founded upon a sound basis; if it is founded upon a safe basis we will go forward with new proposals, and if we can prove that they have not stated their case fairly, then there will be another proposal. I think my friend will see the reason for that procedure.

I think, Mr. Chairman, that if my friend will read the pamphlet he will find that we are taking it up pretty thoroughly. I am not taking every word of it, but I am taking the principal parts of it. Has he any objection to the parts that have been taken?

MR. MARLER: Not at all.

MR. IRVINE: Perhaps it will appear a little later, if it is not obvious now, what we are trying to get at.

[Major Hugh Douglas.]

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Hon. Mr. STEVENS: Before the witness leaves that point, Mr. Chairman, may I interject a question?

The CHAIRMAN: Yes.

By Hon. Mr. Stevens:

Q. In connection with your answer regarding the situation in Germany, you described the acceleration of industry. In your opinion would part of that—I do not say all of it, but a measurable part of it—would be caused by the fact that the German people prefer to hold their wealth, if you like to call it so, in goods rather than in a currency which was depreciating daily at a very rapid rate, that is, to-day a man would receive for wages say 10,000 marks, but fearing that the market would depreciate to-morrow, he would hasten out and buy some goods with his wages and in that way create an artificial demand for the goods? My question may be a little involved.—A. I agree thoroughly with you. That is always a feature of expansion; that is always a feature in a matter of rising prices of any sort.

By Mr. McMaster:

Q. But it must come to an end some day?—A. Yes but it will keep on as long as prices continue to rise.

By Hon. Mr. Stevens:

Q. I would like to ask one further question at this point, and it is this; taking the German situation again, based as it is upon an issue of all its currency on the national demand, where do you anticipate the process must end that has been going on in Germany for the past three or four years?—A. Well, I anticipate that it must end, I think, just about now or thereabouts. Take the present level of prices in Germany, and following that on to the end there is bound to be a great economic slump in Germany. That is to say a huge wave of unemployment and all the concomitants of that. And in saying that I am simply taking the situation in Germany as it is and as it was without offering any opinion on the form in which the inflation took place.

By Mr. Irvine:

Q. Major Douglas, have you any remarks to make on the subject matters contained in pages 32 and 33 of this book? I will summarize it if you wish?—A. If you will, kindly, yes.

Q. For instance, they go on to ask:—

“Then there is no advantage in restricting the issue of currency to Governments?

“Absolutely none when the currency is on a gold basis.”

Further they say:—

“A man's labour, or his crop, is always good value” and so forth.

Then they ask:—

“What is there to prevent the banks making that unlimited issue of their notes?”

They answer:—

“The law. Banks are permitted to issue notes only to the amount of their paid up capital, except during the period of crop movement, when this limit can be exceeded in order that farmers may find ready sale for their products.”

That is page 32. Then on the next page they ask this:—

“But if the currency depreciates fifty per cent, will not the farmer receive twice as much for his grain, his cattle, his fruit, butter and cheese?”

[Major Hugh Douglas.]

And in answer then they say:—

“Yes; but what will that benefit him, since he must pay twice as much for everything he buys including wages of his farm hands?”

And so forth. Do you recall that?—A. Yes, I recall those passages. I remember the impression they produced on me, and that was that there was a continuous insistence on the word “currency” there as if currency was the only form of circulating medium which was employed in connection with financial transactions. Currency one way or another has comparatively little to do with it. The relation of currency to the whole financial circulating media is probably not greater than one-fifteenth or one-sixteenth and therefore all those remarks which are made in regard to currency have comparatively little bearing on the question, unless you also apply them to such things as credit documents, bills of exchange and so forth.

Q. Would this not imply a contradiction of the statement which was made on page 27, where it is said:—

“The decline in prices produced the shrinkage in loans and circulation.”

Whereas in this case they admit seemingly that the increase of currency would produce a corresponding increase in prices?—A. They suggest that the increase of currency would produce a corresponding increase of prices undoubtedly and that would only be true, as I have just said, if the total volume of currency, loans in operation, cheques, bills of exchange and so forth, were increased, and it is difficult or impossible to answer that unless one knows in a specific case what is the relation of the amount of currency to the total circulating medium.

Q. Then in a chapter given us here on “Noteholders and depositors” do you recall, Major Douglas, the general statement on that question by the writer of this book?—A. Yes.

Q. And have you any remarks to make on his position there?—A. That is I think pages 34, 35 and 36, isn't it?

Q. Yes?—A. Well the impression which was created on my mind was this.

The CHAIRMAN: I think it would be well to intimate to the Committee what they contain, so that the answer will be more intelligible. You are not summarizing are you?

By Mr. Irvine:

Q. No. This is a chapter on Noteholders and depositors. In the first place it says:

“The banks were required to establish redemption offices in all the Provinces, where the noteholders could convert currency into coin, with the result that from the time this facility of conversion was afforded, no one desired to make the exchange, and thereafter banknotes passed current at face value throughout the Dominion. There was, however, still to be overcome the discount on the notes of an insolvent bank. It is true that experience had proved that in the long run these notes were redeemed.”

Then further on:

“Parliament, therefore, provided in the 1891 revision of the Bank Act for the creation of a redemption fund to retire the notes of a bank becoming insolvent. This fund, which is held by the Finance Department, is made up from the contribution by all the chartered banks of five per cent of their circulation, and now amounts to \$6,442,000.”

That is the subject matter of those pages.—A. Well what struck me about it was that while the banks specifically explain that banknotes are issued by

[Major Hugh Douglas.]

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themselves and represent by implication and almost by admission not only new purchasing power in themselves, but the basis for credits and loans, which are still further purchasing power, while they admit and explain that, they go almost out of their way in this booklet to explain how the public credit, not the banks' personal credit, but the public's credit is committed to the acceptance of these notes and loans. That seems to me to be interesting and significant because it is practically an admission that the public credit is necessary to the functioning of the system at all.

Q. Then dealing with the depositors and the protection of those depositors, this statement is made:

"He has the protection of the assets of the bank, and of the double liability of shareholders; and he has the protection of prudent investment of his money by bank managers, which latter protection experience proves to be reliable in the main and very rarely deceptive."

Have you any remark to make on that statement?—A. Yes. I think that that is another instance of the working of the financial mind; the orthodox financial mind again. What is meant there is, financially prudent. That is to say that the bank managers, quite properly as things are at the present—there is no personal implication about any of these things—makes use of the funds over which he has control, being guided in his use of those funds by the financial result which will accrue, and when you have an alternative between a thing which is desirable and a thing which will pay, then you have the use of the banks' and the public's credit always, invariably, in favour of the things that will pay.

Now I think I might perhaps be allowed to give a sort of instance of that, a hypothetical instance, to make clear what I mean. Supposing you had a small village in which you have the old fashioned type of private bank. It will be very probable that most of the smaller houses in that village would be mortgaged to the bank. Now supposing the housing in that village became too small for the requirements of the population. The rents of those houses would tend to rise and therefore the security of that banker in regard to the mortgages, would improve. Supposing at this point someone came along and said: "Rents are getting high and housing is getting scarce; if you will lend me \$10,000 or \$100,000 I will put up a number of houses, which will bring rents down one half, and further than that will induce people to move out of the older houses into my newer houses." The banker would at once, naturally and properly say: "But in that case you destroy my security for the mortgages which I already have on the existing houses; but if you will bring me a scheme which will put rents up and therefore increase the value of my mortgages, I shall be much more indebted to you."

By Mr. Woodsworth:

Q. Then the principles of sound banking, from the standpoint of the bankers, do not always work out in the interest of the community at large? —A. Most unquestionably not.

By Mr. McMaster:

Q. But in your hypothetical case, Major Douglas, would not the builder of the new houses in the ordinary course give a mortgage over those as well to the bank and would not the bank find itself, after it had given this new loan on the security of the new houses—even with the old mortgages on the old houses perhaps reduced in value—but with the new mortgages on the new houses to more than counterbalance that? If there is a greater value created and if the bank keeps its mortgage on the old and on the new value I cannot

[Major Hugh Douglas.]

see how the bank's position would be made worse.—A. Well, I think it is practically admitted, and in saying this again I wish expressly to dissociate myself from any suggestion of any sort of animus.

Q. As a matter of fact our ordinary banks do not lend money on real estate, so this is purely hypothetical.—A. They do not lend money on real estate because it is not good business, but it might be extremely valuable.

Q. No, it is not allowed by law and they do not think it is good business.—A. I see. Well, to return to what I was saying. Modern business is practically based on the creation of a scarcity of value. The whole efforts of general business communities are to be able to control prices to such an extent that you get the maximum price for the minimum delivery. Taking it collectively that is the basis of the whole thing, and is, according to the rules of the game, perfectly legitimate. Your object in business at the present time is to make money. It is not to deliver goods. The delivery of goods is incidental to the making of money, and if you can deliver fewer goods for more money then that is sound business, and the banker is a sound business man.

By Mr. Stevens:

Q. Do you suggest, Major, that as in your hypothetical case, the village bank controls the situation, that the banking system of this country controls the situation to the same degree in Canada?—A. I should be sorry to be drawn into an expression of opinion about Canada, but I have no doubt about Great Britain.

Q. Let us put it this way, you might as well make your answer direct, we are not thin skinned about it.—A. Well I should think it highly probable then.

Q. Then how would you explain this fact, in addition to the banking powers in Canada we have other institutions such as the large insurance companies, the trust and loan companies, private individuals by the thousand who loan on mortgages, long-time loans, are they not competitors with the banks in just exactly such demands as you raise in your hypothetical case? Therefore to the extent that they are competitors—measured by the quantity of their loans by the way—are they not an off-set to what you call the monopoly of the bank?—A. I think so undoubtedly, but I feel sure that although the process of monopolization is not yet complete, give it a little time and it will be.

Q. One other question in that connection. Taking your hypothetical case as applied to a nation, if the security is increased because of the law of supply and demand to which you refer, and the value of the money increased, would that not induce those outside the bank who have money, to administer it directly if they could do so, at a higher rate of interest than that allowed by the bank for the depositing of it in the bank.—A. I am not quite sure that I have the whole value of that question, but if I answer it wrongly perhaps you will correct me. The deposits of money in a bank are only a smoke screen for the major operations of the bank. If the public could not see that a certain amount of money went into a bank, they would not believe that it was possible for any considerable amount of money to come out of it. But the bank's business is a loss in respect of its deposits, and only part of it in respect of its disbursements. It has to carry on a certain amount of business at a loss in order to form a screen for the very much larger amount of business which it carries on at a profit, but it would be perfectly possible for a modern banking business to function exactly as it does at the present time without any deposits.

By Mr. McMaster:

Q. So they pay three per cent and invite the public to deposit by advertisements just to get a smoke screen?—A. I should say that.

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Q. Tell us how a bank could function without deposits. It has a small nominal capital, but it has no deposits. Will you just carry us through the stage of that operation?—A. It is really very simple. If a bank could issue a draft for any amount, a banker's draft for any amount, which would always be accepted as money and would never be asked for in the form of legal tender—

Q. Suppose I were going to London and I wanted to buy a draft on London, would I never be asked for the money?—A. They probably would ask, but I say under certain circumstances.

Q. If a bank did not have any deposits or any capital, how would they pay that? How would they pay? For instance the London and Midland Bank, say.—A. The only liability of a bank is to pay legal tender on demand. If there is no demand for legal tender, if its draft is always accepted without changing it into anything else, or if it were in the position of being able to issue \$1 cheques which passed from hand to hand as \$1 notes, then just so long as that hypothetical state of mind exists, I mean it could not exist, because it is not practical, but just so long as it existed, that bank could carry on a flourishing business without having any deposits. In other words, it would be creating its own currency and these would be claims on goods. It would not be paying these claims on goods.

Q. When you say a bank could carry on business without any deposits and practically without any capital, is not that putting it in a pretty extreme way?—A. I do not say that it would in the sense that it is a practical proposition, but I say that it might.

Q. If everybody believed it could be done?—A. If everybody believed it could be done.

Q. That is to say, banking might be based on a state of mind, and not on deposits?—A. I should say banking is based on a state of mind at the present time.

By Mr. Stevens:

Q. Do you think this case that you mention is within the realm of possibility in practical business?—A. All I can say is that the British clearing house deposits during 1921 showed that only 7 of 100 per cent of the business of the country was done in legal tender.

By Mr. Spence:

Q. I would like to ask Major Douglas if he considers that all loans create deposits to an equal amount?—A. I do.

By Mr. Hughes:

Q. I want to come back to that hypothetical village.

Some hon. MEMBERS: To buy a house?

By Mr. Hughes:

Q. The hypothetical case, and my intelligence is very limited. I think there is incorrect reasoning in that. I think your statement was that you pictured a village where there were more people than houses, where there was a scarcity of houses, and that the bank in that particular case held a mortgage on each house; the houses were therefore in demand. There was a demand for more houses than were at the time available. Then you stated that the bank would refuse to loan money to build more houses, because rents would fall?—A. Yes.

Q. That is where I think the reasoning is incorrect. If there were more demand there would be people for the new houses. Rents would not fall if there were a lot more houses to build than there was a demand for. I think that is correct. The effect of the bank acting in that way would be not to increase rents, but to drive people away or prevent the growth of that village, and

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applying that to the nation it would prevent the growth of the nation and retard the development of the country, and I cannot for the life of me see how a bank would benefit by that. My opinion is that the bank would benefit more by the general growth of the country, by the growth of the village, by the building of houses, if there were a demand for them, and proceeding in that way with everything else, with every other activity. Am I correct in that reasoning?—A. Of course, you understand when I give a hypothetical case of that sort, it is very much of an outline, but if you would like me to go a little further I will say this. Let us imagine there is a continuous improvement in houses, the type of house improving by the aid of invention, and so forth all the time. Now, you have a 1910 type of house. I am a banker. I hold a mortgage on your house, and somebody with a 1920 type of house comes along to me and says: "look here, I want to build a 1920 type of house and put this fellow out of business and attract his tenants from his 1910 type of house to a 1920 type of house." Well, I do not think there is very much doubt that I should reply according to the tenets of the game, because I hold a mortgage on his 1910 type of house, and if you provide this fellow with a better type of house he will not be the tenant of that house. Now his house is gone.

Mr. HUGHES: I think it is not what is done.

Mr. STEVENS: Not in Prince Edward Island.

Mr. HUGHES: No, nor anywhere else in Canada.

By Mr. Irvine:

Q. The next chapter deals with depositors and shareholders, on page 38, and it is set forth in the form of a dialogue between a student and a farmer. The student, I think, is the first to speak. He says "I see that you are discussing banking and currency at your United Farmers meeting, and it is a good thing to acquire knowledge of this subject, provided you get the right kind of knowledge." Have you any suggestion to make with regard to this statement?—A. I should presume the booklet was an example of the right kind of knowledge.

By Mr. Stevens:

Q. That would be a presumption, would it Major Douglas?—A. It would be a presumption from the point of motive only.

By Mr. Irvine:

Q. Turning over to the next chapter, which deals with the case of the farmers, the writer says "the remedy is not within the reach of banking. It must be sought otherwise." Are you in agreement with a statement of that kind?—A. Well, to a certain extent, I am in agreement with that statement. I think that it is the system which the bankers operate, which is at fault, and not the bankers, and I think that the bankers can only be put—and I use the word in a very general term, that is to say, the people who administer credit, et cetera—I think they can only be put in position to deal with that by an alteration in the system.

Mr. McMASTER: I did not catch the last words of the answer, and I did not catch the question.

Mr. IRVINE: The question is "the remedy is not within the reach of banking. It must be sought otherwise." I was asking if Major Douglas were in agreement with that statement.

Mr. McMASTER: The remedy for what?

By Mr. Irvine:

Q. The writer says "many farmers in the western provinces have made no money during the last two years, even from the bountiful crop of 1922 and they

[Major Hugh Douglas.]

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are in debt as a consequence of having good crops. Therefore the remedy is not within the reach of banking. It must be sought otherwise."—A. My answer to that is that it was quite true that I do not think that the fault lies with the bankers as banks, that it lies in the system which the bankers operate and they can only be put in position to deal with that, using "banker" in a very broad term, or anybody who deals with credit,—they can only be put in position to deal with that as a result of certain alterations in the system.

By Mr. Maclean:

Q. There have to be banks and banking, but on another system?—A. Yes. As far as I am concerned, the same banks and the same bankers.

By Mr. Irvine:

Q. On page 43, arguing on that, that the farmer should not be allowed to have any more credit because "the money they lend (that is, the bankers) represents customers' deposits, which they must be ready at all times to pay on demand." Have you any remarks to make in that regard?—A. Yes. I think that that is yet another instance of the extraordinarily careful wording of this pamphlet. You see that that paragraph says—I have it written down here, "the money they lend represents customers' deposits"? Represents customers' deposits. You will notice that it does not say that the banks lend customers' deposits. That is a very, very tricky and careful difference. It states carefully—loans and deposits are a reflection of it—but it does not state what is the fact, that the loan comes first, that it is the loan which creates the deposit, not the deposit which enables them to make the loan.

By Mr. McMaster:

Q. That unfortunately, is not always the case.—A. I will elaborate it to any extent you like, but I think if you will care to read Mr. McKenna's speech at the annual meeting of the London and Midland Joint Bank this year, I think he states that in so many words.

Q. Savings deposits do not represent banking.—A. No, but pure savings banks of course do not make any discernible difference.

Q. I mean to say these deposits in our ordinary banks do not really represent loans from the banks returned by the borrowers into the coffers of the banks as deposits?—A. I should very much question that statement, if I might be allowed to. They do in this way, that the manufacturer, as a rule,—or let us generalize him by saying "the entrepreneur"—borrows from the bank what you call an overdraft, or through the agency of a discounted bill or something of that sort, and he pays the money obtained in that way, which is really fresh purchasing power, new purchasing power,—he pays that out to his employees, and that money comes back into the banks through the agency of the tradesmen with whom these employees deal, and in that way, swells the accounts of the tradesmen.

By Mr. Woodsworth:

Q. Would you say loans are based in any real sense on savings deposits?—A. They are only based in a very remote sense, to the extent that it is necessary for the bank always to bear in mind its ultimate legal liability to pay legal tender on demand; only to that extent are they based on deposits.

By the Chairman:

Q. They are secured by collateral as a rule in substantial amounts, there is property behind the loan is there not?—A. Yes, there is property existing.

[Major Hugh Douglas.]

By Mr. Stevens:

Q. There is an implied criticism of that; would you mind elaborating your criticism by pointing out what the evil nature of the system is; it is implied in all these answers?—A. I should not like to use the word evil; I am simply trying to bring out exactly how the system does work, and what are the results of it. I do not wish to attach any adjectives to it at all. The question is do these results happen, and if so, what are they?

By the Chairman:

Q. We must keep in mind that Major Douglas, while saying this system is no good, proposes to put something in its place, and we have not heard yet what that is, and we are at a disadvantage. Would you do away with the Canadian banking system?—A. Do you mean in regard to Canadian banks?

Q. Have you something that you think would suit better?—A. Do you mean would I do away with the Canadian banks?

Q. Yes?—A. No, certainly not; I think they are probably very good banks as far as I know; I would be very glad to have a large cheque on them; but I am going to elaborate this in answer to that question, if you like; what I mean is this, that over and above the sums which are in control of the individual depositors of a bank is always a very much larger expansible and contractable sum of new purchasing power, or non-tangible purchasing power which can be always exercised at any moment at the discretion of the banks, and that bears always a positive ratio to the actual deposits in the banks. However much the deposits in the banks may increase so long as the legal tender liability does not reach dangerous proportions, there is always a huge amount of purchasing power in excess of the individual depositor's purchasing power, which can, if necessary, be exercised by the banks, and the rules under which they exercise that purchasing power, are not, as I see it, such rules as would naturally induce them to use that purchasing power in the interests of the general community; the interests of the general community and the interests of the banks in relation to building credit and purchasing power are not in one straight line.

By Mr. Woodsworth:

Q. One of the witnesses told us the other day that labour was one of the bases of credit, but that under the existing bank system it was impossible to use labour as security or to regard labour as security, hence there could be no advances made on labour by itself; would it possible to have some other kind of a banking or financial system under which labour itself would function as security and advances could be made on potential labour?—A. I do not agree that either labour by itself or real capital by itself or any other component by itself is a proper basis for credit. It is exactly, if I might use an expression which will probably be familiar to anybody here, like taking a volt by itself or an ampere by itself in regard to electricity, or talking let us say of a pound by itself without having a relation to a pound of something. Credit, as I see it, is a result of the combination of at least three things, and you cannot say that one of those three things has any credit by itself; you have to have all of the three at once, or there is no credit at all.

By Sir Henry Drayton:

Q. You were saying the banks had a vast reserve of purchasing power over and above the deposits; perhaps you would give us the details of that?—A. Well, it arises out of the boundaries of legal liability. Their legal liability is to pay cash on demand. Now, supposing that over a given area and over a given period of time they find that out of their total transactions the actual functioning of this demand on them is only one per cent—as I say, from the figures of the British Clearing Houses during 1923 it was only 1.7 per cent;—therefore

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they can have in existence paper which has not any legal tender behind it to a very considerable amount in excess of the amount of legal tender that they would require if all the demands that exist were made on them at the same time; they can build up a pyramid of credit, any inverted pyramid of credit, on a small amount of legal tender, trading on the assumption that people will use paper in large transactions without ever requiring it to be changed into legal tender. That result is massed in the accounts of a bank by the fact that the loans create deposits, but that the deposits which are made are not deposits of legal tender in most cases; they are deposits of cheques, and therefore this question of the creation of this pyramid on a small base of legal tender is massed by the fact that apparently the deposits and the loans bear an inverse ratio to each other, but the fact is that the loans create the deposits.

Q. I want to see if I can understand—

The CHAIRMAN: I think you will understand it better at half past eight this evening.

The Committee adjourned until 8.30 p.m.

EVENING SITTING

April 24th, 1923.

The Select Standing Committee on Banking and Commerce resumed at 8.30 p.m., Hon. A. K. Maclean, the Chairman, presiding.

Major HUGH DOUGLAS, Examination continued.

The CHAIRMAN: Gentlemen, we will resume the proceedings.

Mr. McMASTER: Mr. Chairman, before we resume the proceedings, on behalf of a number of members of the Committee and myself, I would ask the catechist and the catechised to proceed in a different way. We would really like to have Major Douglas lay down in general terms what his scheme is, and then we will understand the import of the questions, and we will be able to understand the answers given in a better manner than we do now.

Mr. IRVINE: Mr. Chairman, I quite understand the impatience of the Committee to hear a concrete and detailed scheme proposed.

Mr. McMASTER: I did not ask for a concrete or detailed scheme; what I asked for was the general lines of the scheme.

Mr. IRVINE: All right, you want the general lines. I have already intimated that the case which we are reviewing here and seeking to answer is the case of the bankers of Canada, upon which they are placing their claim to a charter for another ten years. First of all, I for one want to know whether their claim is justified, and I think that if you will follow the answers to the questions which I have asked the witness, you will discover that they are claims which are not justified. If the Committee are satisfied now that their claims are justified, I am willing to stop questioning on this line, and I will request Major Douglas to proceed on another line. But for the present, we must remove this Shibboleth that has been placed in our way; I think most of the Committee still believe that we have to redeem notes in gold, and that our system is on a sound basis. If the witness has not answered that, then show how your case stands. That is the business of this Committee. This is the method which we selected to present our case to the best possible advantage, and if our case falls down by our methods, that is our funeral. I do not see why the Committee should object to that. I am sorry if we are not meeting the requirements of the Committee, but I do not see why they should object.

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Hon. Mr. STEVENS: I want to take exception to the conclusions of Mr. Irvine that by asking a question and getting a given answer, the question is disposed of and that we are precluded from entering into a debate on those controversial points. I merely want to say, as a member of the Committee, that I am not prepared to accept every answer that has been given and placed on record either in criticism of this pamphlet or of any other, as the ultimate answer to the question. Surely the Committee is not proceeding with this important matter in such a manner as that. In support of Mr. McMaster, I wish to say that it does strike me that when we have a witness whose authority has been very widely proclaimed in matters of this kind, he should make a statement of what his general ideas are on this great financial problem. We have learned from a number of the answers he has given that he does not agree with the present system, but we do not know just why; nor do we know what he has in mind to replace it with. If we had something of that character, we could understand his answers, and appreciate his answers, better than we do at present.

Mr. McMMASTER: I was just going to say, with all respect to Mr. Irvine, and with every desire to show the utmost courtesy and consideration toward the witness, that it seems to me that the views of the Chairman and the Committee should prevail as to the manner in which we propose to carry on this investigation. Just to bring the matter regularly before the Committee, I would move that Major Douglas be respectfully asked to place in broad and general lines before this Committee his ideas of the basis of credit.

Mr. IRVINE: That motion, I presume, is open to discussion.

The CHAIRMAN: Certainly.

Mr. IRVINE: I think, Mr. Chairman, that we ought to consider the case both from the point of view of the witness and of those who are interested more directly in this investigation, and allow those interested and the witness to proceed to give evidence in the best way possible, as they see it. I do not think that this Committee should lay down hard and fast lines as to the actual procedure of examining a witness who is giving evidence. With regard to the statement of Mr. Stevens, a few moments ago that he does not accept, or that the Committee does not accept, any answer, with that I certainly agree; but we are putting up a case, or rather we are trying to show the weakness of a case that has already been put up by the bankers. If that is not done, of course we have failed. If that is done, in the opinion of the Committee, then bring on your best banker to show where we have made a mistake and then we will be able to advance a proposal or new principles. But I do not see that it would be of very much service to advance new principles when you are not satisfied that the one you know already is not faulty in some way or other.

Mr. GOOD: Speaking to the motion I think it might facilitate matters if the witness were to proceed with the rest of the pamphlet, if he so desires, in criticising the case of the bankers, without being questioned by Mr. Irvine, and then make a general statement. I do not think that at this stage it is just the proper thing to ask him for a detailed statement of his proposed remedy. That might be very difficult, but I must say that after listening this afternoon, I have come to the conclusion that a good deal of time might have been saved if the witness had been allowed to start and proceed by himself without catechising, but I do not think there has been anything particularly objectionable about it, but I do think that perhaps we have not had the case presented in as intelligent a form as we might have had in some other way.

Mr. RYCKMAN: I wish to say a word, if Mr. Irvine will allow me. His procedure has been to ask the witness certain questions, referring to page so

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and so, for such and such a statement, and to ask what his opinion was of that. And the opinion has been given, but that is not to say that the reasons have been given. If the reasons had been given we could judge of their value. Let us know what the proposition is, and then, take the time, if we will, and go over this book. But we are sitting here not knowing the direction of the questions. The witness has contradicted at some length statements made in that book from which Mr. Irvine read; but we do not know the measure of contradiction or what weight to give it. We are in a measure helpless, and will be in that recital until we know the faith that is in the witness himself.

The CHAIRMAN: What is the motion?

Mr. McMASTER: That Major Douglas be requested to give in broad and general outline his ideas of the basis of credit.

Mr. SPENCER: I understand that there are only about four more questions to ask, and then I believe that Major Douglas intended to give a broad outline of his views as Mr. McMaster suggested. As there are only four questions more, and we have followed this procedure so far, why not allow Major Douglas to answer the remaining questions as quickly as possible and then get down to the other procedure.

Some Hon. MEMBERS: Question.

The CHAIRMAN: I quite agree with the members of the Committee who take the ground that it is almost a waste of time questioning the witness along the line followed this afternoon. In answer to every question, he answered that this pamphlet reflected the orthodox view about finance. He said that to every question, and he will say so regarding all the rest. Of course, as has been said, it does not get us anywhere. I wish to point out this one thing further, not because it is especially applicable here, but in respect to the rest of our proceedings, that we are considering a resolution, and we asked people to come here and express their views. If anybody asks Mr. Douglas a question, it does not follow that we accept what he states. It is not concurred in in any way at all. We simply ask persons to give their views, and the Committee, collectively and individually draw their own conclusions. However, the resolution before us is quite an academic one, and yet a practical one. It is not as easy to direct the inquiry as you would on a specified subject like the Bank Act, that is Bill 83; and inasmuch as Mr. Irvine has just four more questions to ask, I think it would be better to let him finish. Mr. Irvine will be better satisfied and also those who are interested in this subject. Mr. Irvine will please put his questions as quickly as possible. Is it necessary that I put the question?

Some Hon. MEMBERS: Certainly.

The CHAIRMAN: Well, I suppose I must put the motion, but I think it would be better to let Mr. Irvine finish.

Mr. McMURRAY: If he is short, let us get on.

Mr. IRVINE: Yes, Mr. Chairman, we are nearly through.

Mr. RYCKMAN: Mr. Irvine, you have the advantage, you know what this theory is, you put the questions to him and get a categorical answer, and you know the theory and have the advantage, but I can tell you the majority of the Committee do not know it.

Mr. IRVINE: Mr. Chairman, I am quite in sympathy with the opinion expressed from that point of view, that perhaps if you have not read this pamphlet and considered it very carefully the answers given to the questions I have asked may not seem to be apropos, but I can assure you they are.

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The CHAIRMAN: Mr. Irvine, that pamphlet is not before us at all. It has never been put in evidence, and, as chairman I do not know whether anybody has ever seen it except yourself. As chairman, I do not know, and I am not supposed to know; it is not before us.

Mr. McMASTER: Mr. Chairman, as you have allowed Mr. Irvine to proceed, instruct him to go on.

By Mr. Irvine:

Q. When the Committee rose, Major Douglas was answering this question, that the money they lend represents deposits which they must be ready at all times to pay on demand. He had finished answering that, and my next question deals with a statement which appears on page 44 of this pamphlet; "The position of Loan Companies and Insurance Companies is altogether different. Their liabilities are not payable on demand." Do you agree with that?—A. Yes, I agree with that statement, but I should say that loan companies and insurance companies are only dealers in collective credit, just as banks are.

Q. On the next page, 45, this statement appears: "Embarrassed farmers in Canada should not expect to lean still more heavily upon the chartered banks. They are not getting relief from that source in the United States. The Canadian banks have loaned in the three Western Provinces more than the sum total of the deposits received in those provinces." Have you any remarks to make on that?—A. Yes; the inference from that statement is that the banks are only dealing with their own credit, but the banks are, as a matter of fact, dealing in public credit in every case. There is no possibility of making any credit transaction of which the boundaries can be stated. Everybody is affected by them, and while I should agree that the banks should not, under the present conditions, be leaned on more heavily than they have been, I think that farming in particular is a case for the use of public credit.

By Hon. Mr. Stevens:

Q. Before you leave that point, I would like to ask this; has the witness a knowledge of the facts sufficient to warrant him in giving an opinion as to whether or not the banks have been giving sufficient credit to the farmers of Canada?—A. I should say that in general terms that can only be judged by the agreement of the farmers as to whether they are or are not sufficiently prosperous.

By Mr. Hanson:

Q. That is no answer.—A. I think it is an answer, sir, because what you have farming land and farmers for, if you like to put it that way, is to produce wheat and other things. If you cannot get an agreement with them that it is for them a practicable proposition to produce wheat and other things, you will not get the wheat and other things, and therefore it is a matter of vital importance that you should get their agreement that they are sufficiently prosperous.

By Hon. Mr. Stevens:

Q. What I asked, Major Douglas, was if you had accurate information of the amounts loaned upon which to base an opinion such as you have given here to-night?—A. I have the statements which are included in this pamphlet.

Q. That is not sufficient.—A. It is the banks' own statement.

Q. A reading of that statement such as presented there certainly is not sufficient for any intelligent person to express a very very important decision

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upon.—A. No; do you see, sir, as far as that is concerned, I am simply taking the case as presented by the Canadian Bankers Association. I have no opinion on the facts which may lie outside of that, that is all.

Q. That is the answer to my question?—A. Yes.

By Mr. Clark:

Q. Do you suggest that the banks have not loaned these three Western Provinces their fair share?—A. No, I made no suggestion at all about that. All I say is that there is a statement which Mr. Irvine has read in regard to the fact that the farmers should not lean very heavily on the chartered banks, and I agree with that as a general statement. I say that the banks are using public credit, and that the farmers probably require access to that public credit. That is my answer.

By the Chairman:

Q. What do you mean by saying the banks are using public credit, Major Douglas?—A. I mean that the whole of the claims on property and on goods and services which are issued by the banks rest for their validity on the public belief in these instruments, and the willingness of the public to validate them.

By Mr. Irvine:

Q. On page 46, under the caption, "Cheap Money and Plenty of It", this statement is made: "The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and the demand for the use of such funds." Do you agree with that statement?—A. I disagree with it, absolutely. I think that that statement is the central contention of the existing banking system, and when I say that I do hope that I am making it clear that I am criticising a system and not those who deal with that system. From our point of view, we say in regard to the views that I am putting forward now, we say that money is not a commodity, it is a ticket system. The supply of tickets, that is to say money, must depend on the available seating accommodation. That is to say, it must depend on the capacity of the production system to meet the claims made on it by the tickets, not on the ability of the ticket vendor to hold up the supply.

Q. On the next page, namely page 47, this statement is made: "Nearly all loans are made by credits entered on the books of a bank, or by cheques, or drafts, or acceptances, and these pass into the general clearings of the community, of which only the resulting balances are settled in money; Hence the mere plentifulness of money is only remotely connected with the supply of loanable funds." What do you think of that statement?—A. I think that statement is not only correct, it is a full admission, (A) That banks and credit institutions control industry, and (B) by controlling industry and purchasing power they control distribution.

Hon. Mr. STEVENS: Just a minute, just to show, Mr. Chairman, the utter folly of this proceeding. The first of these two questions is simply the first part of the same proposition in this pamphlet, to which the witness answers in a positive negative; the second question is the second part of the same proposition in this pamphlet, to which he answers in the affirmative, or agrees with.

Mr. IRVINE: What is your question, or your inference?

Hon. Mr. STEVENS: My point is this; without taking responsibility for this pamphlet, it is positively absurd, and I think unreasonable, to pick out a sentence or a part of a sentence and ask the witness's opinion on that, when immediately following is the explanation of that same sentence, in a little

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different form. If you segregate the two they seem to have two different meanings; if you read them together, one is explanatory of the other.

Mr. IRVINE: Will you read the ones that contradict each other?

Hon. Mr. STEVENS: "The dearness or cheapness of money must depend primarily upon the relation between the supply of loanable funds and the demand for the use of such funds. The term loanable funds is by no means restricted to actual money. Nearly all loans are made by credits entered on the books of a bank, or by cheques or drafts or acceptances, and these pass into the general clearings of the community, of which only the resulting balances are settled in money; Hence, the mere plentifulness of money is only remotely connected with the supply of loanable funds." That is one proposition presented in this pamphlet. My friend segregates this into two, to which the witness gives a categorical denial to one, absolutely no, he says. To the other one, he says, "I agree". Now, I want to submit that it is not fair to Major Douglas to ask him these questions separately; my honourable friend a moment ago said, or suggested to the Committee that these questions and answers are going to affect the whole question of the financial system of this country. Why proceed that way? It is a perfectly ludicrous proposition, in my estimation, to proceed that way.

Mr. McMASTER: Mr. Irvine has only one further question, I understand.

Mr. IRVINE: Mr. Chairman, I have no more questions with regard to this, but I think the objection of Mr. Stevens illustrates the point at issue very excellently. Here is a statement which ought to be taken together, and not separately, and yet one half of it condemns the other half of it.

Mr. McMASTER: In the opinion of the witness it does, but we have not finished yet, have we?

The CHAIRMAN: Go ahead, Mr. Irvine, if you are not through.

Mr. IRVINE: I believe there are two more questions, but I would like to ask the witness now to explain to us what this financial system which we have been dealing with has brought about in the industrial world, what is the situation to-day, as a step leading towards a new proposal?

Mr. MARLER: That is a very general question to ask, that will take a year to answer. Has this gentleman not some system that he is going to explain? Let us hear it, if he has.

The CHAIRMAN: I think Mr. Irvine's request is fair. He asks a general question of the witness, as to the effect of the present system, as to how the present financial system affects industry generally, and then I assume he will follow that up by some suggestion of another scheme.

Mr. CAHILL: I understood he would follow that up, Mr. Chairman, but I would like to know for sure; I do not want to waste my time here.

The CHAIRMAN: I think we can fairly assume that.

The WITNESS: I have no intention whatever of placing a scheme before the Committee which has not before been put forward as a scheme, subjected to criticism of the people who understand the local conditions and the subject at issue. I have very strong views on the divergence of the general principles, which are embodied, let us say, in the financial system not only of this country but of every country, and the principles which would deal with the troubles which are growing more serious in every country of the world at the present time. These general principles, if you are interested, I shall be most happy to place before you afterwards, and those would really be put before you usefully. I shall, if I am allowed, and if you wish me to, emphasize where the

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present arrangements are leading you and what they have produced. If you are satisfied—.

The CHAIRMAN: Yes. I think that is fair. You may proceed. That is in answer to Mr. Irvine's question. I think that question is perfectly proper. We cannot consider the resolution unless he can give an answer to it.

Mr. McMASTER: He has a remedy and he wants to discuss the disease before he prescribes a remedy.

The WITNESS: Well, gentlemen, first of all, I would like to say that I am a little sorry, and that I am very unwilling, from my point of view, to sense the introduction, if you will allow me to say so, without the slightest intention of an offense, of a certain amount of acrimony into this discussion. My own object in coming here is to make clear that I personally am convinced that if you go along the lines that you are following at present, and if you continue along these lines for any considerable period of time—I am not going to tie myself down to date—but for my own part, and I think my opinion is being shared by an increasing number of people,—I am perfectly certain you are heading for the most terrific disaster that the mind of man can conceive. What I want to make clear is that this trouble all over the world centres around the question of the attainment by individuals of a reasonable share in the goods and services which they see about them; and I want you to be perfectly clear in your own mind, as I am perfectly clear in mine, and I feel perfectly certain you must be clear, if you will take the time and the trouble to go into the facts, that there is no difficulty whatever in producing all the goods and services that anybody can reasonably require; and that also with the expenditure of a great deal less time in human labour than is expended at the present time. There is no difficulty whatever in any production problem, simply taken as a production problem. As I said earlier in the day, I do not think it is at all possible for any man to put money on the table and say "I want so and so" and not get it. And further than that, in a certain amount of time, I do not think it is possible for any number of people to put the price on the table and say, "I want that" and not get it. So that you have a situation existing in the world to-day in which you have a production system, which is demonstrably able to produce everything that anybody could reasonably desire. That is a thing which has been proved up to the hilt, if it were not proved before, by the enormous production of the years 1914-1919. It is proved in regard to agriculture, as I said earlier in the day, by the fact that in spite of predictions of a certain number of somewhat short-sighted people, the elimination of Russia, one of the greatest wheat producing countries of the world, has hardly affected after two or three years, the world price of wheat at all. In fact, not so many months ago, wheat in Great Britain was very little above pre-war prices; and there you have I think, a demonstration of the fact that you can take huge blocks of the world's surface out of production and still have sufficient production left, and what is true in regard to a thing like wheat, is very much more true in regard to a thing like clothing, housing, and all the other necessities of life. Therefore I want you to get it fixed in your mind, that this problem which is threatening the world with disaster is not a production problem. It is not one which can be solved by anything which is affected by technics. We have already got to a stage when we know enough about the technical details to produce quite easily all that we want. That is one thing. On the other side, I think you must admit this, if any sort of survey is made of the world at large, and particularly the large world towns, that it would be absurd to say that there are not large numbers of people in the world who have barely a physical means of subsistence, and that there are still perhaps greater numbers of people who draw from this productive system above the bare level of bed, board and

clothes; so that you have on this one side this enormous capacity to produce, and this enormous demand which remains unfilled, and something stands in between that capacity to produce and that need to be filled and that thing is finance. There is no other possible thing that can stand in between. The thing that gets the goods over from the producer to the consumer is finance. It is the ticket system; and what I want to reiterate again, at the cost of being redundant about it, if you can put the tickets on the table, the production system will hand you over the goods. The great majority of the people in the world are not in position to put the tickets on the table. That is what is the matter with the world at the present time, that, and to a very large extent very little else. It is not an administrative problem, and therefore what is commonly called "socialism" is not a remedy for it. It is not affected by taking demonstrations from private administration so-called and public administration so-called. That is not the point of difficulty at all. It is solely and absolutely a question of getting a suitable method of getting the goods over from the people who produce them to the people who need them. That can be translated into plain English in a very few short words. What I want to do is to give to the great mass of the population more purchasing power, and the contention that I make in regard to the present financial system is that it fails to distribute sufficient purchasing power, and that means that the relation between the money which is distributed and the price at which things have to be sold is an incorrect relation. I should say that it is impossible that there should be any other relation, and when you insist on the truth and the soundness of the contentions which are made in that pamphlet which we have been examining this afternoon and this evening, you would be justified in saying, as long as you admit the contentions which are contained in that pamphlet—and they are the orthodox contentions, and the chief of these contentions is, that the more money you issue the higher prices will range—so long as you insist that that is what you might call the law of nature, so long is there no exit from this trouble in which we find ourselves. But it has been the object of Mr. Irvine, in cross-questioning me this afternoon and this evening to put on record in every possible way, that there are axioms and laws, and to suggest that they are merely rules, just as you have the rules of a game or the rules of a workshop, and that just as the rules of a game or the rules of a workshop are amenable to change in the interest of the players, so are these the rules which we are inclined to accept as axiomatic. The question of how you get this increased purchasing power is a technical question, and so far as I personally am concerned, I should be most reluctant to put forward any technical scheme, because I am, by training and education, a technical man, and any technical man knows that the first thing that you have to do before you put forward a scheme of any sort in connection with, let us say, engineering, the scheme is to go over the ground, and the ground varies from place to place, so that the actual details which are applicable and suitable, let us say, to Great Britain, might be very easily modified, let us say, very greatly in a country like Canada. I have no hesitation whatever in saying that you have only one possible exit from your difficulty, and that is to devise a scheme which gives more real purchasing power to the public than it gives at the present time, and of course that is not done by the easy method of simply issuing more money. But the exact details in which you do it are technical in my opinion, and wholly unsuitable for discussion at this stage of the proceedings; but what I would like to put over against any criticism of the existing banking system is that it is possible to devise, without interfering with the management of the present banks, the management of industry, and without interfering with the daily habits of everybody, as we know them, it is possible to devise a scheme by which the

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general individual can get more purchasing power than he gets at the present time. It is with the object of meeting you, to concentrate on that point, that I have taken up your time to-day.

The CHAIRMAN: Major Douglas does not care to open a discussion on his substitute proposals of finance this evening. He says he will be ready tomorrow afternoon. We will proceed with the further examination of Mr. Powell.

Mr. H. O. POWELL, recalled.

The CHAIRMAN: Mr. Powell was not aware that he would be called upon this evening, and he has not with him certain data and information which he had this morning, but I have no doubt questions will be asked by members that will bring out information.

The WITNESS: I will do the best I can.

By Mr. Good:

Q. I have a list of questions I would like to ask Mr. Powell. He stated that in the town of Weyburn there are six banks. I would like to have his opinion as to how far those banks could be eliminated and do the business, that is to say would one, or two, or three, or how many would handle the business being offered at that town; incidentally, how far are the operating costs increased by the multiplication of machinery, of staff and so on?—A. I would hate to answer that question. We as a private institution were there first. The other banks came in next. Undoubtedly every bank that came into the field felt that in their judgment that there was room for them. Now, we are very confident that there is room for us, and I presume the others feel exactly the same. Now, I would certainly hate to say that the man who stayed there had poor judgment and did not have some good reason for staying.

Q. I fear Mr. Powell has hardly caught the force of my question. The cost of doing business according to Mr. Powell's own admission—the operating costs run at 5 per cent, at least that—you paid 4 per cent on deposit and you charged an average of 9 per cent for your loans; now, if you put in another bank maybe you will have to charge 6, and another bank 7. If you were to eliminate the multiplication of those banks, reduce the number, is it not possible that the operating costs would fall, so that it would not be necessary to charge 5 per cent. I understand that in some of the systems the margin between rates paid on deposits and the rates for loans is less than 1 per cent?—A. As I said I do not care to make a statement here as to just how many banks should withdraw from a certain town and how many should stay, or anything of that sort. I do not care to criticize any of the judgments as to putting in banks.

By the Chairman:

Q. I suppose you feel the Weyburn Security could do all the business in Weyburn if they would let you?—A. We would do the very best we could.

By Mr. Good:

Q. Would the witness venture an opinion as to whether or not his bank with the present staff or without any very appreciable increase for expenses for buildings, premises, and staff and so on, could do all the business that is being done at that point?—A. No, no.

Q. If so, what additional expense would do the business?—A. There would not be such a tremendous saving in the way of staff. We have one teller. That teller at times is so busy that it is an absolute impossibility for that one employee to handle the work at the wicket, and the accountant has to step in and handle drafts and other matters to relieve the teller. You could not put any more work on to that teller. The accountant is as busy as he can be. Our staff we try to work to its full capacity as near as possible.

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Q. Every day in the week?—A. Six days in the week. There are slack times in any business when possibly there is not a person in the bank; but there are other busy times, and those busy times come at the same time in every bank. You cannot get the public to come along single file one at a time; there are rush hours, and you have to provide facilities to take care of the rush hours for the public. The rush hours come for the other banks the same, I don't think there is a bank in Weyburn that is over-staffed, and there might be a slight reduction in staff. When you say whether one bank could do all the work or not that is another thing, but I doubt very much if the public would feel at all satisfied if one bank should endeavour to do the banking business of Weyburn. I think you would find the people of Weyburn would put in a protest that would be heard a long way. The people would not be satisfied with the one bank system in Weyburn.

Q. I am sorry we cannot get any definite opinion on this point from the witness. I would like to ask him whether or not in his opinion we might divide interest charges into a charge for insurance, an insurance charge to cover the risk of loss, and a service charge?—A. I don't think so, no. You cannot divide this into a fixed proposition. The banking business has not got down to a fixed science so much for so much in any particular line. The expense of handling one person's business might be high in one line, and the expense of handling another person's business high in another line, and different classes of business. You would start to raise the expense of banking if you tried to commence figuring out that kind of a scheme.

Q. I did not want any mathematical division, but rather an opinion as to whether or not that would not be a reasonable classification of the two elements that are now combined under the one term interest?—A. I don't think so, no.

Q. Another question, is the amount which you loan limited by your capital stock?—A. You are referring now to the system in the States where you can only loan 10 per cent of capital and surplus to any one firm or individual, and you mean, is there any limit in Canada as to whether you can loan more than a certain percentage of your capital and surplus?

Q. I was referring not to a statutory limitation, but to a limitation which is considered desirable to observe?—A. In our business out there we have never been offered large enough blocks of business yet to make us feel they were too large to take care of with our capital.

Q. Let me put the question a little differently; you have a capital now of round five hundred thousand dollars, and a reserve fund of a little over two hundred thousand dollars?—A. \$750,000 roughly speaking.

Q. \$750,000 combined capital and reserve; your loans are now how much?—A. About two and one half million dollars.

Q. Do you think you could extend that up to ten million dollars without increasing your capital?—A. Do you mean to extend the deposits up to ten million?

Q. Deposits and loans?—A. I presume it could be done. I know banks in the States—you can only tell what can be done in that way by seeing what has been done in other places—I know banks in the States with far less capital than we have that would have as large deposits as you speak of.

Q. Is there any limit then to the amount which may be loaned in proportion to the capital and reserve?—A. The limit as to how much can be loaned is in Canada a matter of discretion of the Directors, as to whether the loan is safe, whether it would be paid back at reasonable times. We will say that at certain times of the year we would have surplus funds, and we would loan them only on the very choicest of securities, so that there would be absolutely no risk. A loan of that kind could be made longer in proportion to your capital and in proportion to your other business than loans in which there might be a question

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as to their safety. We would not want to take on a lot of large excessive loans, we do not want to put our eggs too much in one basket; we want them distributed. Our loans only average to the farmer around \$900 through the whole institution.

Q. I do not want the witness to run away with the idea that I was thinking of increasing the loans by increasing the magnitude of each loan; there is another way of increasing them, by increasing the number of loans. What I had in mind was the total volume?—A. I thought you meant the ratio of the amount of loan or percentage of loan to the amount of capital.

Q. No, of total capital?—A. I thought you were figuring on excessive loans to one individual.

Q. No, the total volume of loans, is there any limit?—A. Yes, there is a limit which is fixed by experience largely. We hesitate, unless we know where our funds are coming from, absolutely, to carry less than about 20 per cent in actual cash or cash reserves, which can be converted into cash like bank balances, and all that, of our entire liability to the public which includes all deposits and the circulation. We treat the circulation the same as a liability to the public.

Q. What about the proportion between the total volume of loans and your capital stock, plus reserve; is there any proportion, any ratio that is considered advisable, or a ratio beyond which it would not be safe to go?—A. You say the total deposits and the capital stock?

Q. No, the capital stock and the total amount of loans?—A. No. I don't think there is. In our western country where our deposits are small, particularly when we first started, we used a larger proportion of the stockholder's money to accommodate the public than an older bank would with larger deposits or in an older country.

Q. Loans create deposits, do they not?—A. No, only in a certain way. There was some discussion on that here.

Q. Give me your view, anyway.—A. Here is the proposition. If you are doing a certain kind of business, a man might borrow \$100 that he did not need, and he deposits it in the bank while checking it out. I will presume that many of you people here are farmers; most of our business is farmer business; a farmer very seldom comes to a bank and asks to borrow money to leave in the bank. The only way to increase the deposits is to leave the money in the bank. He borrows the money to buy a horse perhaps, to pay off a binder, to pay a hired man, or to pay a threshing bill. I cannot see where it will increase a deposit if we increase the loan; it is increased out of what the man saves up to live off later on, to pay off a real estate loan next year, or something like that.

Q. I presume the man who made the loan took the money immediately, to pay off his grocer or some other transaction, and he finds that the money may come back to him?—A. Ten chances to one it would get in about the time the deposit got there.

Q. Would it not be true, therefore, that the loan created the deposit, perhaps not through the one person but through the two or three persons?—A. We cannot tell exactly where our deposits come from; we know we get deposits, and we know too that when loaning is active in certain lines particularly, if it is trades people who borrow we will say a certain amount in order to carry on, a certain amount of that money stays in the bank until they cheque it out, but when business is inactive loans do not increase deposits to any great extent.

Q. Do they exceed deposits?—A. Loaning when business is inactive is largely renewals. Sometimes western money goes east to pay the wholesalers, or to pay off a hired man in the fall. In the fall there are tremendous demands for loans to pay off hired men. These hired men take that money and go east with it, and it gets into different channels entirely.

Q. If your depositors should feel the pressure of circumstances and take out their money, you would have to call your loans in, so to speak, or reduce your loans?—A. Yes. We cannot loan out deposits and pay them off without calling them in.

Q. Would any kind of commercial depression that necessitated the withdrawal of deposits have a tendency to oblige people to sell their marketable products, because they were being asked to repay their loans, by reason of the pressure of the depositors?—A. When a panic is on, or a great stringency, we all have to sacrifice, we all have to sell securities and everything else, and we sell those securities. That is one reason why banks carry a supplementary reserve, to have something which they can put on the market and get funds to prevent them having to call upon their customers.

Q. A depression tends to accelerate the calling in of loans?—A. Well, if money is plentiful in London and a little short in Canada, the London money will get over where it is needed, and if money is plentiful in New York and a little short in Canada, some of the New York money will get over here, and I presume our money goes down there at times too. Money moves around where it is needed, as a general rule.

Q. What do you think of the opinion expressed a little while ago by another witness that the Canadian banks might affect the price of wheat on the Liverpool market, I presume by enabling our farmers to hold their wheat and avoid glutting the market?—A. I don't think I heard the witness.

The CHAIRMAN: Who said that?

Mr. GOOD: It was said this afternoon.

The CHAIRMAN: Yes, that statement was made.

WITNESS: Probably I was not here. What is your question again? I do not know whether I can answer it or not, Mr. Good.

By Mr. Good:

Q. Do you think the Canadian banks could have assisted the farmers to realize more on their wheat by enabling them to hold it, so that the slump would not have been as great as it has been?—A. I think you should ask that question of one of the bankers who handle grain business. We help the farmers out in that country, and we have not got any of the big grain business.

Q. Have you no opinion upon it, as an economist, irrespective of your own particular business?—A. I do not care to express an opinion upon that point at all; I do not know. You have to have practical experience along those lines, to see how they work out.

Q. But have you any opinion upon the point?—A. I do not care to express an opinion upon the point at all.

Q. Well, have you an opinion?—A. I have an opinion upon a great many things that I do not care to express an opinion upon, and I do not care to express an opinion upon that, because I do not know anything about it.

Q. Have you no opinion upon this particular point?

The CHAIRMAN: Mr. Good, you are a man trained in economics; do you think the Canadian banks affected the Liverpool price of wheat in 1920? I would like to see if there is any point in it.

Mr. GOOD: It is quite conceivable, Mr. Chairman, that they might have done so; I do not know whether they did or not.

The CHAIRMAN: It is conceivable that it might have been a factor among many factors, in producing an international financial situation?

Mr. GOOD: Quite so.

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The CHAIRMAN: That is as far as you could possibly go?

Mr. GOOD: That is what I cannot say.

The CHAIRMAN: Why put it upon the Canadian banks entirely?

Mr. GOOD: I was asking the witness whether he had an opinion as to whether the banks could to some appreciable extent or measurable degree have affected the situation.

By Mr. Good:

Q. Do you know anything about the handling of the cotton crop in the Southern States after the war, Mr. Powell?—A. I know nothing about it at all.

By Hon. Mr. Stevens:

Q. You were not an active banker in those days?—A. I don't think he meant the Civil War, he meant the present war. I have never had any experience in southern banking. Southern bankers do their business largely through New York, that is their clearing house, and my experience has always been in the Northwest, and it has been with mixed farming and granaries.

By Mr. Good:

Q. I will explain to you what I mean. I understood from reading some of the American papers that after this recent war there was a very large amount of cotton in the Southern States that was practically unsaleable, that the producers of cotton there were not engaged in any other production, that they could not sell their cotton, that they could not get any money, and were practically up against starvation. I understand also that there was some method devised of financing the holding of that cotton until the producers could realize something on it, and that that saved their lives.

The CHAIRMAN: What did they do? Put it in the Warehouses?

Mr. GOOD: I am not posted as to the particulars; if the witness can tell us, I would like to know.—A. I cannot tell you.

By Mr. Good:

Q. Very good. In regard to the note issue of the Canadian banks, do you appreciate it as a special privilege, as something of advantage to the bank, to have the exclusive right of note issue?—A. It is some advantage to us yet, but I think it is of far more advantage to the public, and I do not think it is of any more advantage than we give service in return.

Q. If that right were taken away from the banks and given to the Dominion, if our notes or paper were all Dominion notes, what would the banks lose?—A. They would lose that much money to loan to the public.

Q. A bank would lose the amount of its note issue?—A. That is about what it would amount to. There is a certain percentage, about twenty per cent, of our liabilities to the public, below which we hesitate to go at any time; there are other times when it runs far more, up to forty per cent.

Q. Do you get the full value of the interest on your note issue?—A. No.

Q. What costs are there against that, what expenses are there against your note issue, which have to be deducted?—A. There is the printing of the bank notes, taxes, expenses of shipping notes around, insurance, and all these different things. They run into quite a considerable amount, but I cannot give you the exact figures.

Q. Is there anything in the Canadian system of note issue that makes the currency elastic?

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By the Chairman:

Q. Before you get away from that, I would like to ask a question for my own information. Mr. Powell, let me ask you this practical question, and apply it to your own bank; if you had not the right of note issue, with your present capital, reserves and deposits, could you have the same number of agencies operating in the West as you have to-day?—A. We would have to reduce our loans, roughly speaking, \$200,000 or \$300,000. The note issue is always at the lowest at the time when the demand for money is the greatest; the note issue is always at the highest when business is most active, and we know that it is coming back for redemption. Our note circulation always hits the low point in February and May. During the summer months it runs along fairly steadily, but we would not think of loaning a swelling circulation, because we know that we are going to be called upon immediately.

Q. Would it affect the number of agencies you have?—A. Yes, because if we had to cut our loans down that much we would have to cut out some of our agencies. A country bank generally has about 150 borrowing customers, and we would have to cut out say two agencies. I have not figured it out; this is the first time I have ever thought of it in that way, so I am just speaking offhand.

Q. From my reading of literature referring to our banking system, one function of our system was that it enabled them to put agencies where they could not go if they had to buy Government notes?—A. You see my reasoning there; I think it is about right. It would practically reduce our lending ability, what we would lend in say two country branches.

Q. You would have to go out and buy notes for business, for circulation purposes?—A. Yes; the Government would have to pay the expense then.

Q. Your capital would be out in notes?—A. Our capital?

Q. Yes.—A. Part of it. The expense of shipping the stuff around and one thing and another, along with the question of redemption, would be on the Government, not on the bank.

Q. Think it over and see if you can give us a clear answer to-morrow; it is something which is not quite clear to me.—A. It is something which is sprung upon me as a surprise; I have never figured it out.

Mr. Good: Mr. Powell will be here to-morrow, and he can then give us some information upon that point.

By Mr. Good:

Q. You said this morning that your bank and perhaps other banks encouraged farmers to go into mixed farming?—A. Yes.

Q. Would that indicate that the banks have a very considerable control over questions of industrial policy?—A. Any banker who is performing his duties as a citizen and as a banker is going to analyze the situation very carefully, as to what is best for his community, and the banker, better than anyone else in the community, is in a position to tell which men are succeeding and why they are succeeding. If a banker is what he should be, there is a great deal of confidential financial talk between the customer and the banker.

Q. Suppose a banker was a man not of the best judgment, there might be a good deal of damage done in the country?—A. Well, if the banker does not give him the best judgment, generally he will have a superintendent or somebody over him, and if he still continues giving poor judgment he will be probably removed.

Q. You spoke about the people succeeding in business, that the banks could tell pretty well who would succeed. What kind of success have you in mind, money making, or performing community service?—A. I think, as a rule, the man who makes a little money is going to be able to perform more community service than a man who makes a failure, financially.

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Q. The matter was brought to my attention by a remark somebody made to-day that he was in Ottawa when people were short of horses, but there was lots of money to build theatres or picture shows, that the banks were prepared to loan money on a proposition that was making the money.—A. I do not believe banks would loan money to build picture shows unless they knew whether the money was coming back in a reasonable time.

Q. I simply put the question as something that came to me. At any rate, you admit that in Western Canada the banks have taken the responsibility of assisting farmers, or advising farmers, in getting into mixed farming; mind you, I am not saying anything about mixed farming.—A. The point is this, that a banker takes an active interest in his customers, not only for the building up of the banking business, but he does take an interest in them, he wants to see them prosper, he wants to see them get along, he likes to loan money to assist a man to get more money. He hesitates to loan money to any man to put in a scheme he knows will be to his own detriment and to the detriment of the community.

Q. Would loans be made more wisely if decisions were reached by a local directorate?—A. I think that is coming into effect more and more generally as the population increases; nearly all of the banks, or a good many, I would not say nearly all, because I do not know, but I know quite a few of the banks of Canada now have directors in Winnipeg, and I presume some of them have directors in Vancouver. I do not know that, but I know they have some in Winnipeg, in order to get people in touch with the business in the West who can advise sanely and wisely as to conditions.

Q. That is, a knowledge of local conditions is advisable, in your judgment?—A. I say the banks now are following that as rapidly as possible. I also know they are placing more superintendents over smaller areas as the business increases and the population increases. They are sending out men over these areas to look after them so that the necessity of going to the head office with everything is largely eliminated.

Q. Would you carry it another step and say that in a local farmers community, or a community around a small town, say, in the West, the people in that district, say a local society, a credit society or local bank, would know better how to distribute the loans than say some man in Winnipeg or some man at a little distance away, or better even than the local manager in that small town?—A. No, I would not.

Q. Why not?—A. Sentiment so often creeps in; sympathy and sentiment and one thing and another creep in so that the decision that is given is not always sane. Now, a loan coming in from a branch manager is always—or an application coming from a branch manager is always accompanied by the branch manager's recommendation—I mean his opinion, I do not mean his recommendation but his opinion. The Superintendent, we will say, in charge of the district knows his branch manager. He will know whether that branch manager is over optimistic, whether he is over conservative, whether he is apt to be carried away with some faddy idea, or something of that sort, he will know his shortcomings. In dealing with the loan, the statement, the conditions surrounding and the statement made by the branch manager—he will know the temperament of the branch manager, and all these things are taken into consideration, as well as the past history of the borrowing customer. Now, I think you will get a far more sane judgment by having someone other than the local man or a local committee to pass on loans, than you would in leaving it to the local manager who would be so apt to be warped in his judgment by sentiment or often times prejudice.

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By the Chairman:

Q. How do you like our system as compared with the American system, where you have individual banks? Would you care to say?—A. That all depends. I would think that you are more apt to get a man of wide experience when you have one who has ability enough and has proven his ability to act over a large territory. I remember Mr. Forgan put it so well last time; he said, that in some districts you would find a man of outstanding ability, and in other districts a man of inferior ability. The district which happened to be fortunate enough to have men of outstanding ability was to be envied. I am not quoting Mr. Forgan's words exactly, but I think I am giving his idea; I think it was said in reply to Mr. Maclean, too. The men of outstanding ability in any line or walk of life, are not plentiful, and you are more apt to get a view based on sound judgment and experience by having a man who can hold a position which would warrant that class of man being in it, than in the smaller bank. In the small banks you might be very fortunate in having a man of wonderfully good common sense, even though he might not have technical banking experience, and yet it might be unfortunate and you might have a man who would carry his whole community into trouble simply by his wild schemes.

By Mr. Good:

Q. Your opinion is, then, I take it, that the branch system is better than the system in the United States?—A. I think the branch system is more apt to give satisfaction.

By Mr. Cahill:

Q. You think the tendency is to build up the country on a more solid basis, with the branch system?—A. I think I can illustrate that—I do not want to talk too much—I think I can illustrate that by a little history. You will pardon me in giving you this little history of the Western United States and Western Canada. South Western Dakota was settled—not exactly western South Dakota but towards the Missouri River—that was settled in the '80's by good people. They had individual banks in there and they had some poor crops and one thing and another and practically all the people moved out. I know towns in South Dakota that in the '80's and the early '90's, particularly the last of the '80's, had two or three banks, churches, high schools, stores, all good thriving towns, well settled, the community well settled, and disaster struck them, and the people moved out, and the county was practically depopulated.

By Mr. Good:

Q. What kind of disaster?—A. Poor crops, just such things as hit practically every new country; it hit Wisconsin and all the other states, just as it has been hitting some of our Western provinces.

Q. Is that district settled now, or abandoned?—A. I am coming to that. The same thing hit North Dakota—when you get beyond the Red River Valley; take Sargent County and all those west of the Red River Valley, all those outside of Red River proper, they were able to weather the storm, but west of that, I have travelled that country, travelled it collecting horse paper on horse back, and you would pass great big fine buildings with the roof falling in.

Q. You said they weathered the storm. Does that mean bad crops?—A. Yes, they got through the hard times, but that country now has come back and is all settled. Our district in the West has been going through bad times, which it seems every new district has to have, I do not know why it is—.

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Q. Does the witness mean to imply that the drought is more noticeable in the early days of a settlement than later on?—A. I am not saying why, but I can take you back to the history of the United States. It seems to go right with new communities.

Q. That the crop failure is more characteristic in early days than later on?—A. Yes, because they get into diversified farming later on, and failure in one crop does not affect them; that is why bankers like to have farmers doing mixed farming. The western part of Canada has not been depopulated, even though it has been hit very hard. We have some of the territory that has been hit hard, and there have been very few men leave our territory. I know practically every man that has left, and they are very few, and very few of them needed to go, even then. Had some of these districts that we are serving been served by a local bank, it would have been absolutely impossible for a local bank to have extended the necessary accommodation to carry that community over until it could get re-adjusted.

Q. What if it had re-discount privileges?—A. You are getting that in Montana now; there are districts there that have not been hit any harder than our districts, where there is practically not a settler left. I travelled through there three years ago, I think it was, in an automobile, and you could travel miles and miles and see nothing but houses boarded up without a man left. You could not see that anywhere on this side of the line. I crossed over and went West, and came back east, and came through districts in Canada that had been hit just as hard, and it was the exception to find a deserted place. Now, I consider that our branch bank system has assisted the farmer to stay, and I do feel that the farmer that stays is going to make good. Let me illustrate a little further. I went west in 1899. On the way I passed through White, South Dakota, I stopped and got lunch there, and I had hard work to find a place where I could get anything to eat in the town. To-day, quite a large proportion of our real estate loan money comes from a banker living at White, South Dakota, and he is sending us the surplus funds of his customers to loan, up in Saskatchewan, on farms. Now, when I went through there, that settlement had been depopulated; people had made a failure and had gone. To-day the community is prosperous. They have two banks, and they have diversified farming and so on. Had the system been operating in the United States, as it has been operating in Canada, I feel that a great deal of that movement of settlers could be averted. In that case, the bankers lost their money with the people. They stayed behind their guns and the question of criminality did not come into it at all. They did everything they could to help, and the people did everything they could to pay the banks, and they went down together. We have never had such a thing as that in Canada, but I am firmly convinced that you would have had that condition had we not had the branch bank system. Am I giving you what you want? I want to give you the information you want, if I can.

Mr. GOOD: I think this information is very interesting. I would like to ask him, in connection with it, does not that prove that a satisfactory financial system is of great assistance to the farmer?

The WITNESS: No question about it at all.

By Mr. Good:

Q. In your opinion, could something have been done in the early days to have prevented those catastrophes?—A. No. We go further east—

Q. The witness says no. You do not mean under the conditions existing then. I presume that everything was done that could be done, but I am

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asking him whether or not some other system than the one then in existence.—A. Are you speaking of the banking system, or the farming system?

Q. The banking system.—A. Do you mean here or in the United States?

Q. Wherever these disasters happened, whether some other system might not have averted that disaster.—A. I feel our Canadian system has met the situation in Western Canada, with the poor crops and war conditions, coupled together, exceptionally well.

Q. You are quite satisfied in your mind that the Canadian system has been of greater benefit to the farmers in Western Canada than the American system has been to the farmer south of the line?—A. I think so, and the fact that there have been less people moving out, I think practically proves it.

Q. Would you think the Canadian system was capable of any improvement?—A. I would not say you could not improve it. If there is any means of improving it, by all means do it. We want the best system we can get.

Q. You are quite willing to consider any suggestions that can be made to improve it.—A. We would be glad to.

Q. I was going to ask in connection with rural credit societies, whether or not it was Mr. Powell's opinion that the rural credit society system, which I understand has been in vogue for many many years, is a defective and inferior system to the present system in Canada?—A. I will just give you my opinion, whether it is worth anything or not. My opinion is that the public is going to pay for a whole lot of foolish loans, and unwise loans, before they get through with the credit system.

Q. Your opinion is that favouritism is shown?—A. I do not mean favouritism, but I mean unwise loans; maybe loans which will never be expected to be paid back, in other words a man making loans is not a banker, and sentiment and a lot of other things will creep in and that will affect it.

By Mr. Caldwell:

Q. You would say all the wise men are now occupied in banking?—A. Not at all. We are always looking for good men in the bank.

By Mr. Good:

Q. The witness stated this morning that he did not approve of the proposal to make returns of appropriation or contingent reserves. I was going to ask him, following up his explanation, whether or not the good years and the bad years which the bankers have, like other businesses, could not be looked after by additions to or withdrawals from the ordinary reserve fund.—A. You mean from rest.

Q. From rest.—A. A bank dare not touch its rest. That is the last thing that would be done.

Q. Let me put it a little more concretely, Mr. Chairman. Supposing during a lean year the bank lost so much money, could it not take that out of the reserve fund. If it had a good year, could it not make it up and make some more?—A. There you get the publicity, which is very harmful for safe business. You get your criticism which would not be based on facts or sane judgment, because they would not understand the conditions. There are certain things you cannot make public and make public safely. You know that in your own personal affairs. There are certain things that you do not want to say, that you know. There are certain things you do not want to have advertised, because you are doing the best under the circumstances that can possibly be done. There are certain things in every business which should not be made public. The auditors come in and they check these reserves carefully. The directors know why all the reserve returns are made, and the Minister of Finance has a

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perfect right to ask any question he wants of the auditors, and have these things checked, but for the general public to criticise the policies which belong to the directors to decide—directors are elected to those positions because they are supposed to know enough to direct that bank—there are certain things which are up to them to decide, and I do not feed it is good policy to give them out to the public.

By the Chairman:

Q. That is, a bank can less afford to disclose substantial losses than a private concern, by reason of the fact that the deposits and note redemption are very sensitive, and may be withdrawn. Is that what you mean?—A. To a certain extent, and suppose you set aside in a good year quite a little amount, the public may jump at the conclusion that you have lost a lot when you are merely setting it aside so that in the event of something happening later on you have that fund to pay your losses.

By Mr. Good:

Q. Would you approve of giving the Minister power to inquire into the matter privately without giving it publicity?—A. I have no objection to the Minister inquiring if he wants to. The auditors know all about it, and he has a perfect right to ask the auditors anything he wants to.

By Mr. Speakman:

Q. I wanted to ask Mr. Powell two or three questions. I will make them brief. I understand you to say, Mr. Powell, that as regards southern Saskatchewan at least, banking facilities at present were quite adequate to take care of the situation as it arose and look after the credit needs of the people there.—A. We think we did pretty well where we were.

Q. You do not think there is this barren area of credit in that part of the country?

By the Chairman:

Q. That is, the form of credit which cannot be supplied by the bank, should be taken hold of by credit societies, an intermediate form of credit supplied by the bank or supplied by the credit companies?—A. I do not think there is any need for it at the present time.

By Mr. Speakman:

Q. I understand in encouraging the stock-raising and mixed farming industry, that a large percentage of your loans to farmers will be made for a considerable length of time, that is, one year or two years?—A. We have made some such loans. We do not hesitate at all if we know our man. We do not propose to lend to men whom we do not feel can make a success of the proposition, and we have made some loans where we took some losses, where we made some mistake in judgment, as I spoke of this morning, where the man allowed his cattle to freeze up in Radville. We have other men where we furnish the money for the first foundation of the stock; we have other men whom we loaned money to in the fall to buy cattle in the spring. We were making a loan to another man to buy stockers this spring, to feed this summer. We have no hard and fast rule at all in these things. We give it the best way we can.

Q. I understand you do make loans, which I understand you expect will run for one or two years on certain classes of security and on certain classes of business.—A. We do not want any large proportion of that class of business, because we do not consider that is safe banking, but we can take care of a certain proportion of that class of loan and do it safely.

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Q. When you make these loans, is the note drawn for a long or a short term, subject to renewal?—A. Drawn for short terms.

Q. What would be the average term, four months?—A. Three or four months. We have drawn notes from fall to fall. We have drawn a good many notes from spring to fall. We have drawn notes from fall to spring. Everything is taken into consideration and talked over with the customer. We talk it over with the customer just the same as I am talking to you people. That is the way we do business.

Q. When such loans are made, and you expect them to extend one or two years, there is a certain agreement entered into. The understanding is that thing being satisfactory, they will be renewed?—A. It is all understood. John Jones knows we are not going to pinch him. He feels perfectly safe.

Q. At the expiration of the loan, it is at the discretion of the bank whether it will be renewed or not, whether the man is doing well or not.—A. If he went wrong and we could see that we had made a mistake and that there was going to be a big loss, we would tell him he would have to change his methods.

Q. It is renewable at the discretion of the bank?—A. The bank would have something to say about it, certainly. If he is not carrying out his end of the deal, we would certainly have to take some steps to protect ourselves.

Q. I understand you to say the average interest on the loans would be about 9 per cent—A. That is the average interest on our loans. That has not been figured out exactly for two or three years. We did figure it out as close as we could about three years ago, and it came out to about 9 per cent. We do not figure it out every year.

Q. As you make a certain percentage of your loans to municipalities at 3 per cent, it will mean that the average farm loan will be 9 per cent?—A. Our loans to municipalities will not run into any tremendous amount. \$100,000 would cover it. Our average loans to farmers run between 8 and 10 per cent. We charge them 10 per cent in some cases. In some cases 8 per cent.

Q. If it runs between 8 per cent and 10 per cent, I will call it 9 per cent.—A. 9 per cent is what the ordinary farmer pays.

Q. I presume when a loan is made you discount the notes.—A. No. We do not. We charge straight interest.

Q. You would not be in a position to collect if you charged more?—A. I have been in the banking business since 1885, most of the time, and I have never yet had a man who was accommodated and understood all about the circumstances at the time he was accommodated who came in and squealed later on. The man that would squeal generally is the man who is being taken advantage of, and he has a right to squeal; but when we take care of our customer through thick and thin, and tell him "Now, see here, Sam, you know the condition here, you know just what we are doing, and it is worth so much to do this business, what do you think about it, can you do any better, or do you think that is reasonable?" When we talk it over that way and he looks the thing square in the face and he says "No, I believe that is all right," I have never yet had a man go back on it.

Q. We understood from the evidence of other bankers that it was practically the invariable rule to discount the interest in advance, your bank is an exception?—A. We run our own business.

Q. At the end of the loan period I suppose you compound the interest on renewing the loan, or do you just carry it on?—A. The interest is added in, certainly, unless he pays it; in a great many cases the man pays his interest regularly.

Q. If it was not paid?—A. Certainly it would be compounded.

Q. At the end of each renewal period?—A. Yes.

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Q. Supposing a man carried a loan for two years, did you ever estimate what the actual difference in interest would be compounded?—A. No, but I can tell you something that would bring you somewhere near it. \$100 at 10 per cent interest will double itself in ten years; \$100 at 10 per cent compound interest will double itself in six years and a fraction, I have forgotten the exact fraction.

Q. You could not say what the interest on a loan would be paid yearly?—A. No, it does not run very much to any particular individual, those small loans.

Q. What in your opinion is about the rate of interest that the farmer can pay in an average year? I am asking that question because the same question was asked another gentleman, and I thought you are better acquainted with conditions in the West?—A. What is your question?

Q. My question is what interest do you think a farmer can reasonably pay, profitably pay on borrowed capital in carrying on farming in the average conditions in the western country?—A. I have told you that our rate average is about 9 per cent. Now, I have data with me which I think would convince almost any reasonable man that our average farmer, taking the time that he has been in the country, the full time that he has been in the country—we had 240 statements that we based that on, ten from each branch, and our average farmer has been able to accumulate outside of unearned increment in land, something over \$600 per year,—actually save and accumulate; that is through our district. The average time that the people have been in the country was 12 years. I have all that data at the hotel, and you are welcome to it if you want it.

Q. That is the most cheerful news I have heard in a long time. I thought I was in a good district, but they cannot do that?—A. This data is an understatement rather than overstatement, because we have carefully checked the 240 statements, in fact we know most of the men personally, and I have the data here. I have the names of the 240 men, and the statements, but I would not give you that, but I can give you summaries, and you are welcome to them, and it shows that our men are not losing money; and that did not take in last year's good crop; this was data that was accumulated a year ago before we had last year's good crop, and it took in all the war period and all of the hard crops, all of the trying times that our people have gone through. You can have it to-morrow if you want it. I have enough summaries for all of you; you can have the data if you want them. There are quite a number around here who have seen it already.

Q. You think that a farmer going in for stock and getting a loan for two years, can well afford to pay 9 per cent interest, and make money?—A. I know that our men are taking that money and not finding any fault. We loaned one man that we loan every year money for stock; that is his business; he made a failure of grain raising, and we told him to get into the stock raising, and he got into it, and there are men in the audience that know him and know all the circumstances, and we loaned him right along, and we loaned him the last time money to buy a carload of heifers, he thought that was the best thing. He bought those heifers and the other day he came in and he paid us back the money that we loaned him. He says "I have done pretty well." He says "I have got eleven head of the best ones left; I have sold enough to pay the bank back, and I have \$145 in my pocket." I said "How much cash feed did you put into them," and he figured up he had bought so much shorts, and put in so many oats, and he had put in about \$200 cash feed into his cattle besides his time; other than that he had put in stuff on the farm which would be absolutely waste, and he told us when he came in to borrow the money that he had slough hay which was unsaleable, and had besides a lot of oats and

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straw; and that was the result. That loan he paid just a day or two before I came away. I could give you case after case right along that line. That man paid 10 per cent for that money.

Q. In your opinion the cattle industry is on a pretty profitable basis at the present time?—A. My opinion is that now is the time to get into cattle if you are in a position to do it right; the time to get into anything is when it is down.

Q. That is for future sales in case the market rises; but at the present time you would hardly say that cattle bought two or three years ago and carried could be sold at the present time at a profit?—A. No; we have been unfortunate on account of the farmer law passed in the States; the Fordney Tariff was passed at the demand of the western farmers; it has hit the Canadian farmer, but that is an outside question.

By Mr. Gould:

Q. You with the other banks send in your monthly statement to the Dominion Government?—A. Yes. every month.

Q. In this I think I will possibly pay a compliment to the Weyburn Security Bank; I am basing my questions upon a little computation I did myself taken from one of those monthly statements; the Weyburn Security Bank at that time had fifteen branches?—A. That was some time ago.

Q. Yes, two years ago I think?—A. It would be longer than that.

Q. Anyway it was the time they had the fifteen banks; it is since I have been a Member of this House. I made the computation that when the Weyburn Security Bank had its fifteen branches, and I know that the majority of those branches are located in small towns and villages, possibly from 150 to 300 of a population, although quite a large agricultural area tributary, they sent in a certain amount per unit valuation for those properties; our larger banks of Canada which have magnificent buildings in all our cities all over Canada,—their head offices must run into millions,—the valuation of their offices showed some of them \$26 per unit capital or valuation less to the Dominion Government than the Weyburn Security Bank; and it caused me to believe that in some way some of the banks must have been hiding their assets in their returns to the government. You might give us an opinion upon that?—A. I do not know anything about it; I know how we put ours in, and ours stands at less than they are worth, but they have never been written up, and they have only been written down as time went along to make them stand at what we thought they were worth, fair value at that time, and with the increased values that came since you could not put them there for nearly the amount of money they stand on the books, but we never wrote them up; we do not feel it is good business.

Q. I would not suggest for a moment that you were writing them up, and from the knowledge I have of your institution in various towns I had no reason to believe that they were over-valued, but that same thought gave me the idea that other banks had under-valued theirs?—A. I don't know how they have their buildings; perhaps they do not belong to them; perhaps they belong to some holding company. I am not familiar with their system at all.

Q. I think it is a question that we should follow up when possibly some of the other bankers are here as witnesses?—A. I know nothing about it at all.

Q. You believe yours is a fair computation?—A. We have tried to put them on our statement fairly. Our statements are not padded. We would like to have the statement a little better than it looks rather than to look a little better than it is.

Q. These figures I have given, the statement I have made can be substantiated by taking a monthly statement that has been given to the Dominion Government, and if such is the case I believe we are right in assuming that

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assets are being hidden in the returns sent in to the Government. If such is the case, and I believe it to be the case, there must be a reason for it, and I think it should be within the province of this committee, and I think it should be arranged for on the part of this committee to put forth an effort to find out if such is the case?—A. I have told you what I think about it. I have not minced matters at all on that. I feel there are times when liberal appropriations should be made, when you know you have not losses that year, to take care of losses which you know will come later on, and that is good banking. But I feel that is a matter of discretion on the part of the officers and directors of the institution, and that these matters are all known to the auditors. That is one thing that the auditors check every year and check twice a year if they want to. Possibly they do so in all the banks, and the Minister and the authorities at Ottawa have free access to all of this information. It seems to me that that is as far as it is wise to go in publicity. That is my opinion as a banker, and from what experience I have had.

Q. It seemed to me that possibly the returns were sent in to the Dominion Government with the idea, if it is true, that they were hiding their assets, and that is the only solution that I could arrive at in my mind?—A. Pardon me, but don't you think you are using a term that you would not really want to use when you say they are hiding that. A person hides when he is afraid of getting caught, or something of that sort; really is not your term a little bit misleading?

Q. It might be a little bit far?—A. Should you say they are hiding them when they are setting them aside for a purpose which is legitimate, and there is no attempt at hiding them from the authorities who have a right to know about it, the directors who have the best interests of the bank at heart, and the representative of the Government who makes his report to the Government and knows all these things; is it just right to say we are hiding matters?

Q. I am not making any statement that this is hidden from the directors or shareholders?—A. Is it right to say the banks are hiding them?

Q. I was wanting to see if we could not find there are two values placed upon these properties, one to the directors and one reported to the government. We know these are assessable and taxes are paid to the various municipalities and to the Dominion Government, and I wondered when this disparity is shown, as it is shown, if the Dominion Government is receiving its full quota of the taxes that should come?—A. I know nothing about it except our own institution.

Q. I intended this as a compliment to the Weyburn Security Bank?—A. We are not looking for anything of that sort; I want to assist you all I can, but that is all I can tell you.

Witness retired.

The CHAIRMAN: It is time to adjourn; but I want to read a letter from the Clerk of the House of Representatives at Washington, addressed to the Clerk of Committees:

Your telegram of April 14 was received some days ago desiring 300 copies of the so-called Rural Credits Act, at which time the supply was exhausted. I was pleased however, to requisition 300 copies from the Public Printer which have just been received and mailed to you. We are glad to render this service for which there is no charge.

Very truly yours,

It has been suggested that the committee might make recognition of the courtesy extended.

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Mr. Good moved, seconded by Mr. Spencer: That the thanks of the committee be extended to the writer of this letter for courtesy in supplying it with 300 copies of the Rural Credits Act.

Carried.

The CHAIRMAN: Tomorrow morning, unfortunately, the Government are holding a caucus and it will be possible for us to meet. I propose that we meet at four o'clock in the afternoon. Major Douglas will conclude his remarks, or at least he will pursue them further.

Mr. SPENCER: May I ask when Sir Edmund Walker will be called?

The CHAIRMAN: The latter part of the week.

Mr. SPENCER: Mr. Powell I take it will be available?

The CHAIRMAN: Yes.

The Committee adjourned until 4 p.m. Wednesday, April 25, 1923.

WEDNESDAY, 25th April, 1923.

The Select Committee on Banking and Commerce met at 4 p.m., the Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: The Committee will come to order. Has anyone any motion to submit?

Mr. HUGHES: Mr. Chairman, I beg to submit this amendment which has been printed.

The CHAIRMAN: Just explain it in a word.

Mr. HUGHES: Perhaps I might read it, it is short.

The CHAIRMAN: It looks very long, on the paper, from here.

Mr. HUGHES: Well, the Fire Insurance Companies think that sometimes a bank officer who is interested in another company, intimates the company in which he would like to have the insurance placed, whether it is connected with a subsidiary company of the bank, or connected in some other way. They think that is a grievance, and whether that can be remedied by an amendment to the Act or not, of course I do not know. It may be somewhat doubtful. At all events the Fire Insurance Companies wish to submit this amendment to the Committee and to ascertain in that way what the Committee thinks of it. That is the substance of it.

Mr. W. F. MACLEAN: Is that the substance of this circular the members got to-day?

Mr. HUGHES: Yes, I think so, a notice of motion.

The CHAIRMAN: On behalf of Mr. Casgrain who is absent. I wish to submit to the Committee two amendments he proposes. One is to amend section 76, subsection 2, by adding after the word "accountants" in the second line thereof, the words "or by any association of chartered accountants incorporated by Provincial Statute."

He also moves to amend subsection 2 of section 83 by striking out all the words commencing with the word "Who" on the 9th line thereof down to the end of the subsection, by substituting the words, "of or in respect to such products, goods, wares and merchandise," which will appear on the Order Paper.

Any other motions?

Our business this afternoon is to hear further from Major Douglas.

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MAJOR DOUGLAS' Examination continued.

By Mr. Irvine:

Q. Mr. Chairman, I would like to ask the Major to include in his statement, in view of the slight misunderstanding as to the evidence yesterday, a short resume of the principles which he covered in his evidence yesterday.

Mr. W. F. MACLEAN: That is not part of the statement he was making last night?

Mr. IRVINE: You will hear.

MAJOR DOUGLAS: Mr. Chairman and Gentlemen: I should like your indulgence, if you will give it to me, in summarizing the line which was taken in the evidence I had the honour to give to you yesterday. I should like before doing that to put before you, very briefly, the background against which I think that line of what you can call, if you like, an attack on the existing financial system, should be considered. I believe that that background is present, probably, in the minds of everyone here, but I think it will clarify your judgment in regard to what I have to say, if I just run rapidly over that background.

I think you will all agree, I think it must be agreed anywhere, that we are in a time of great economic and industrial difficulty; and I think you will probably agree, not perhaps so readily, but after a little further thought, that this difficulty in which we find ourselves has only really been accentuated by what we refer to as the great war; that the difficulty existed in essence before the war, and was in fact, to the eyes of fairly close observers, coming to a serious climax almost immediately before the war, had the war not occurred. But in addition to that, in addition to these active difficulties that we all see in the shape of political discontent, strikes, and so forth, there are difficulties which are not quite so obvious, and which do not seem, at any rate to me, to be amenable at all to, let us say, the rather forceful methods which sometimes can be applied to strikes and so forth.

For instance, I should like to put before you the position in regard to the farm labourer in Great Britain at the present time, because I think, without knowing your special conditions here, that sooner or later such a position would be bound to occur, and it illustrates the sort of difficulty which we suggest comes out of the financial system as it stands.

The farm labourer in England at the present time gets about 25 shillings a week. I will keep it in British currency because you can convert it into, dollars if you like without affecting the result. Wheat, at the time that I took these figures—it has risen a little since then—was selling for about 43 or 44 shillings per quarter.

Mr. W. F. MACLEAN: Will you put that in bushels please.

MAJOR DOUGLAS: I am told that there are eight bushels in a quarter, and I take it that there are four bushels to your bag.

It is well known in Great Britain that roughly speaking the economic rate that you can afford to pay a farm labourer on an ordinary farm is the price of a bag of wheat. That is a rough and ready guide which has always been accepted as giving some indication of the economic rate of wage. Now at the present time somewhere between 25 and 30 shillings a week is what is alleged to be the highest economic rate that you can pay a farm labourer. At the same time in England you cannot build a farm labourer's cottage so that you can rent it at an economic rate, at very much less than 20 shillings a week. Remember that his wage is somewhere between 25 and 30 shillings a week. If you build as I say on purely economic principles, and rent on purely economic principles, you cannot build and rent a cottage for less than about 20 shillings a week. Therefore a man with a wife and two or three children should have

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left, after he has got a cottage, let us say, to give the outside figure, about eight shillings a week to keep four people, to clothe them and to feed them and to provide them with that lavish amusement which you would expect they would have, after spending two dollars a week on food, clothes, and so forth. Now that is the position in which neither side, neither the farmer who pays the wage nor the labourer who accepts it can be said to have any option at all. So long as the farmer carries on his business on the orthodox principles, he cannot pay a higher wage than that, and it is agreed that it is simply fantastic to expect a man, his wife and two or three children to live on a couple of dollars a week in England. Obviously it cannot be done. This is the sort of impasse or sort of dead end which you will find, as a matter of fact, in almost every field of endeavour at present.

By Mr. Sales:

Q. Are you sure you are right in those figures?—A. Which figures?

Q. That you cannot build a labourer's cottage and rent it for less than £1 a week.—A. I will give you the figures. It cost anywhere from £400 to £600 to build a cottage.

Q. How many rooms?—A. That would be a cottage of about 4 rooms and a small one.

Q. Something like they used to rent for 2 shillings a week?—A. Something just like that. Then if you will take that capital you will appreciate it and see where you get to.

By Mr. W. F. Maclean:

Q. Does he pay that as a matter of fact, now?—A. No, he does not, simply because he cannot. He is generally subsidized by the owner of the land.

By Mr. Stevens:

Q. What are his wages to-day?—A. About 28 shillings a week. The actual strike which is going on at the present time is as to whether he shall get 26 shillings or whether he shall get 29.

By an Hon. Member:

Q. Is that the wage for a man taking his meals on the farm?—A. No, that is his wage, and find himself. To just round out that argument, because I think perhaps an argument of that sort is very valuable in connection with a thing of that sort, I might give you an actual personal experience in regard to a property which I might be said to have some personal interest in. This property was assessed for death duties at £11,000. It is rented at a nominal rent; that is to say, the alleged rental of this farm is £240 a year. During the past two and a half years, perhaps three years, that property has produced to the owners a net sum of £17; £17 on something which is alleged to have a capital value of £11,000.

By Mr. W. F. Maclean:

Q. Roughly, how many acres?—A. Just over 200 acres.

By Mr. Hughes:

Q. Is the owner of the farm the same man?—A. No, the owner of the farm is not the same man. I do not know how much the farmer is making out of it, but I believe, from knowing something about the farmer, that he is correct in stating that he is not doing at all well.

Q. And the owner?—A. The farmer is not doing at all well, so that you have there a position in which you have the owner making no money, the

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farmer making very little, and the labourer unable to live, and the price of the product to the consumer still quite high. Those are facts and not theories. I want you to have these at the back of your mind when I proceed a little further with this discussion. There is another and extremely important aspect of this subject, and that is the growing imminence of another great war. There has been during the past two or three years a steady grouping of forces for another cataclysm and at the back of that grouping which you have, that threat has a perfectly simple cause, which is sufficiently easy to explain. I do not suggest there are not subsidiary reasons, but this reason that I am giving you is quite sufficient to explain it, and that is the necessity for the capture of commercial markets?

Q. That is economic?—A. That is economic.

By Mr. W. F. Maclean:

Q. Is there not a political reason for the great disturbance too?—A. I think myself that there are certain psychological causes which I believe can be traced back to the economic reason, and that those perhaps are now beginning to obscure the economic reason, but the position is very much as if a man had \$10 stolen off him and will have a fight because he is angry. If you take it a little further back it is because he has had \$10 taken off him. That again is in the background of this picture. I took up a little of your time last night in emphasizing the fact that there is no productive problem at the present time. There is no difficulty whatever in producing as much of any given thing as you want, and I would repeat, in order to emphasize it, if you will put your money on the table, you can get anything that you ask for, and further than that, if as many people as you can get together can get sufficient money and put it on the table, they can get what they want, no matter what it may be. There is practically no demand which cannot be met if you are prepared to back that demand with what is called effective demand, and that is money. On the other side, as I said before, it is quite obvious that there is an enormous unfilled demand. You have on this one side the producer of all sorts, straining to produce—and there is an unemployment problem, which means that he is not allowed to produce, and that is a problem which is becoming more difficult to handle every day almost everywhere—and on the other side we have the consumer who says he is not allowed to consume, and these things are common practically to every country. Now I am repeating myself a little but I think it is worth it in this case. Something stands in between this power to produce and this need to be filled. It stands in in the form that we see, in the difficulty of the farm labourer, the farmer and the consumer. You have the farmer who wants to farm. You have the farm labourer who wants to work and who wants to live, and who wants a higher standard of life. You have all these three things, and they cannot get together. Something stands in between this thing and that thing, and I think we are irresistibly driven to the conclusion that the thing that stands in between is finance, the financial system. There is no nexus between consumption and production except finance. The thing which prevents manufacturers getting orders which they want or the farm labourer getting the things he wants, the farmer increasing his production to the extent he wants, the thing that is lacking is effective demand, and effective demand means in plain English, "money." So that we have standing in between those two things which ought to be brought together, the financial system. Now, the bankers operate the financial system. I do not think they themselves would deny that for a single instant, particularly I suppose in Canada, where the great mass of your legal tender, your currency, is actually issued with the superscription of the banks on it. That makes the thing more obvious perhaps than in Great Britain, although the thing is not substantially different, because a Treasury note represents some

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form of currency and is only issued through the banks and so is in fact practically for all purposes controlled by the bank. The bankers operate the financial system. They have, in Canada, issued a statement of their case, a copy of which was kindly sent to me, and, on which I was examined yesterday. The results of that examination in detail, of course you will no doubt find in your records, but the two main things which I wish to bring out as to the object of that examination are these: that the bankers state in that statement of their own case—and you must remember it is their statement; it is not anything that any critics of the banking system have made; it is their statement, so that there is no question as to misrepresentation or anything of that sort about it.

By Mr. W. F. Maclean:

Q. And perhaps a little apology?—A. It is an apology, if you like to put it that way, and bears the name of the Canadian Bankers' Association. No question of misrepresentation can arise about it, and they state specifically that money not only is but ought to be a commodity, and they also, by issuing that statement and by the claims that they make in it, say they are the proper people to carry on business in this industry. In addition to that, they attribute certain virtues to a gold standard and they make certain statements in regard to the gold standard. Now, the answers to the questions which were submitted to me yesterday, to my mind were intended to make clear these two main points that I have brought before you. There were many other answers on subsidiary points, all of which buttress the argument that was put forward, and these you can examine for yourselves in detail; but the two main points which we wished to make are these: we say that to regard money as a commodity is proof of a radical misunderstanding of the proper function of money, and remember, that we have got to the point where we agree that there are difficulties in the world, and we agree, at any rate for the sake of hypothesis, that these difficulties reside in the financial system, and we say that to regard money as a commodity is proof of a radical misunderstanding of the proper function of money. Now, I should like to be allowed to expand that a little for a moment, not to the extent it can be expanded, but to go back to an illustration which came up yesterday and which I think is perhaps a fair analogy. Supposing you had a railway and you had a ticket office in a city, and the object of the ticket office—as may be the case in regard to limited trains—was only to issue tickets, so as to allocate a proper number of passengers to each train. Supposing somebody got in between the ticket office and the train and began to carry on a trade in tickets, using the tickets themselves as the currency in which they traded in tickets, that is to say that they began to play a game in which they tried to get two or three tickets for one ticket, and so forth, to concentrate the holding of those tickets in the hands of one person. You will see that all possibility of the original idea of those tickets which went to make a nexus or connection between a certain number of people and a certain number of places, that the possible idea of carrying out that scheme would be completely defeated by this trade in tickets which went on between the consumer, that is to say, the person who wanted the place on the train, and the people who issued the tickets. You could not possibly get the passenger over from the ticket office to the train and find that he had got the right accommodation if in between there was a game going on by which two or three tickets got concentrated in place of one ticket. That is an exact analogy of the position which occurs when you treat money as a commodity. You are carrying on a trade in tickets, using the tickets themselves as the means of the trade; and it is impossible, for that reason alone, if for no other reason that there can be any relation between the effective demands of the people and the productive capacity of the productive system, if you have some manipulation of these effective demands going on between the consumer and the producer. That is what we say. Now

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then, in addition to that, they say that there are certain virtues attributable to a gold standard. We have put in as evidence, figures supplied by the Federal Reserve Board and also other arguments to show that their own statements are directly contradicted by figures apart from anything else, and that therefore they do not appear to know what happens actually in regard to the gold standard, not at any rate, taking their case as they put it forward. Now the position taken up by the orthodox banker in regard to the banking system—and again I repeat it is the system and not the banker, I am attacking—the position taken is that there is nothing wrong with the financial system, that it might possibly be polished at the corners and that sort of thing, but the main principles of it are sound, and further than that, that they should be allowed to carry on for a further period of years everywhere, and I suppose particularly in Canada, but the same argument applies, that there is nothing wrong with the system. Now, the suggestion that we make since as we see it the financial system is demonstrably at fault, and as we see that the expansions of the existing financial system made by the people who do operate it, do not in fact correspond with facts, quite apart from any question of theory, it would appear that they do not themselves understand how the system as it is at present does in fact operate, they do not seem to be in possession of the actual information as to what happens at the moment, or at any rate they do not seem to be able to read that information, and alternatively they do not know how it ought to work satisfactorily. They say that certain things are satisfactory when results are patently and generally condemned, and they say that is a satisfactory working, and they have no suggestion as to how it ought to work satisfactory. The object of the whole of that argument is to bring us to the point that at any rate from our point of view there is ground either for some considerable delay while the facts are further investigated, or else somebody should explain what is the fallacy which is involved in the statements that we are making, because unless those statements are logically disproved it seems to me that they must stand, and that, gentlemen, is the position to which you are brought as we saw it last night. I am now open for any further questions.

MR. W. F. MACLEAN: Has the witness a concrete proposition?

MR. RYCKMAN: When is the witness going to give us this substitute plan?

THE CHAIRMAN: I was going to suggest that Major Douglas should proceed to elaborate an alternative scheme to put in place of that which now prevails; I think that would be more satisfactory to the committee and in the end to himself.

THE WITNESS: Mr. Chairman and gentlemen: the point that I think wants to be made clear before I proceed is, that if you are all satisfied with the statement that the present financial system is broadly speaking perfect, there is of course no ground for putting forward any alternative. If a man is going to assert that he is not sick, it is obviously foolish to offer him a remedy. Therefore, as you are good enough to ask me to put forward an alternative I must assume that you agree that perhaps we are in the body politic a little sick, and on that assumption I will proceed to put before you not a concrete scheme, because I do not believe that anything could be more useless at this stage of the proceedings than to put before you a concrete scheme—

By Mr. W. F. Maclean:

Q. That is what we are charged with, to find a concrete statement in connection with the revision of the Bank Act?—A. I have not been examining, with your permission, the concrete details of what I consider to be the scheme before you at the present time. The scheme before you at the present time is

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that, we will say, of the Canadian Bankers' Association; it is just as much a scheme as any other scheme. You are considering that, and that is the scheme which is before you, and I have not been examining that in detail; I have simply been endeavouring to point out to you where I think it is based on fundamentally unsound principles, and therefore I should like to put side by side with that certain principles simply for your consideration. Any scheme that might follow at any very much future time we will say would, as I see it, in order to be effective, have to build up on those principles. The principle which you have got to embody in any change to meet the criticisms at any rate that I have been making, such a scheme must embody greater purchasing power to the individual on the whole than he has at the present time. The object of the industrial system, the object of the whole productive and trade system including its banks, its fields, its farms, its manufactures, and so forth, is simply and solely to deliver goods and services to the individual; that is its only sane justification for existence. If it does not deliver those goods and services to the individual, it fails of its object, and it fails of its object at the present time, because the individual has not got the effective demand by which he can get those goods and services; it fails not because the productive side of it cannot produce them, but it is because the consuming side of it cannot get them by means of something which we call effective demand; and in order to give the individual effective demand over and above that which he has at the present time in relation to the same body of production, we have to establish a different ratio between the money issued over a given period and the money taken back over a given period through the medium of prices. You can never get any grip at all on this subject until you realize that purchasing power, by which I mean money credits, and so forth, wages, salaries, and all those sort of things, and prices are simply the two ends of one thing, that out through the medium of wages and salaries and dividends and so forth is flowing a stream of what we call purchasing power, what can be called purchasing power, and back again is flowing another stream in the reverse direction through the medium of what we call prices; and it is perfectly clear I think, that if you alter the ratio of those two streams you alter the effective purchasing power on the part of the consumer; so that any possible scheme which is going to deal radically with this proposition and this situation as you find it must deal with purchasing power and prices at one and the same time. Now, there are certain good sound practical objections to what we call fixed prices. A good many experiments have been tried in fixing prices, and there are many ways of getting round fixation of prices. In addition to that they have what I personally regard as an insuperable objection, that they put everybody dealing in a commodity on one flat level, and they do away with the undoubted benefits which do appertain to competition. There are certain undoubted disadvantages which appertain to competition at the present time, such as wastefulness, and so forth in many case, but there are certain very great advantages which appertain to competition, and those are affected by fixed prices. So that it is not quite simply a question of fixing prices. But you have as a matter of fact always in the credit system as it is operated at the present day, a stream of fresh credits coming out, but we know perfectly well that it is always possible to create credit, given certain premises, and if you find that your industrial and economic system is blocked from the fact that the consumer has not got sufficient effective demand you can apply that stream of credits to remove that block, and you can apply it by reducing prices through the aid of those credits, and making up the difference between the price of an article as it would be at the present time, and the price of an article which is necessary to get it sold. You can make up that difference in price by applying credits

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to it. It has been done, it has been done and most effectively done in Austria. I should like to be allowed to read an extract from a book by Col. Repington called "After the War". You perhaps know that Col. Repington was sent round Europe by Lord Burnham to look into conditions, and this is the statement made on April 11th, 1921:

"I am much impressed by studying the Austrian papers. They seem detached and indifferent about foreign affairs, but are full of accounts of all sorts of new or extended industries springing up, and I counted twenty-three pages of commercial advertisements in Sunday's Neue Freie Presse. I read or hear of every kind of old industry being extended and of some new one opened. New machinery is being employed, and on the farms prize stock are being bought and farm buildings improved by the rich peasants who thrive on the war. From Upper and Lower Austria, Styria and the Tyrol, it is all the same story of new developments, and what is really going on is an endeavour to make the new Austria less dependent on her neighbours and less forced to buy abroad in markets made fearfully dear by the exchange."

On page 145 of the same book it says:

"I find that two-thirds of the Austrian deficit is due to food subsidies, chiefly bread. A loaf of 1,260 grammes is now sold for nine kronen, but costs sixty kronen to the State. Even a Rothschild is paid therefore fifty-one kronen by the State for every loaf he eats."

Those two statements are contemporaneous. During that period—of course you will no doubt be shocked at the idea of quoting Austria as a desirable thing, but I simply want to make one point out of this—during the period in which this application of state credits in that case to a reduction of prices was in operation, the first description of Austria applies, that every farm was putting in new stuff, buying prize stock and so forth. What was happening was that there were huge budget deficits, but that did not affect the fact that everybody in the country was prosperous. Since that time Austria has returned to greater financial soundness as measured by usual standards; there is a complete wave of economic stress covering Austria at the present time, and everybody is either down and out or just about getting down and out, but the budget is approaching nearer to financial soundness, which I feel sure must be a great consolation to the people who are down and out. Well, that is the principle which in my opinion has to be included in any attempt to deal with this situation, and that is—I do not mean the Austrian method—but the principle that you have got to alter the relation between prices and purchasing power. Now, I should like to outline just one sort of specimen method by which the thing could be done, not in any sense submitting it as a finished scheme—

By Mr. Clark:

Q. Where did Austria get the wherewithal to do that?—A. If you will tell me where the banks get the wherewithal to loan more money than they have got I will answer you that question. It comes out of the same source.

Q. Could it go on forever?—A. Under certain conditions, yes, assuming that the real credit of the country was expanding. The principle can be applied indefinitely; that is the short answer to that.

By Mr. Stevens:

Q. Would the witness please before he leaves Austria, just to make that illustration clear, tell me this, Col. Repington's article I understand is dated

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April, 1921?—A. This is the date, April 11th, 1921. I read this thing myself about a year ago, and remembered it, and thought it might be useful here, and got the book out of the Parliamentary Library; so that if you want the book it is there.

Q. No, what I am getting at is the fact that that he was referring to is what was occurring in April, 1921?—A. That is the case.

Q. And the Austrian deficit was made up by new issues of Austrian notes, that is true, is it not?—A. Not notes, no, simply book entries.

Q. The Austrian currency was inflated I think just at that time, and immediately following that time. During the year 1921 Austrian currency fell in value to almost a vanishing point—that is correct, is it not?—A. That has nothing to do with—

Q. I am not saying it has, but it is a fact, is it not?—A. I daresay, I have not got the figures in my head, but I should be perfectly willing to admit it. It was very low at that time.

Q. Then the point applies there as applied yesterday in my question regarding Germany, there was a wave of activity and prosperity in Austria during that time, during that period of inflation?—A. Yes.

Q. I think that also is a recognized fact?—A. Yes.

Q. Now, then, we come to a period, the exact date I cannot recall, but you can very well find it by reference to the library, perhaps I might say about a little over a year ago, about December, 1921, when there commenced an effort, a joint effort on the part of the stronger nations of Europe to re-establish Austria's credit, culminating as it did a few months ago in that large advance—is that not a correct statement of fact?—A. That is a statement of fact without doubt, yes. You understand we are talking about financial credit?

Q. Exactly, but I am just trying to make a series of statements of fact in the sequence of events regarding Austria?—A. Yes.

Q. The reason that joint effort was made by the various allied nations in Europe was because Austria's system up to that time was acknowledged by all to be absolutely incapable of restoring Austria to a normal condition or anything approaching a normal condition?—A. I should reply to that simply that up to the time this alleged remedy was applied, Austria was extremely personally and individually prosperous, as evidenced by what I am saying. The application of this desirable remedy to this condition in which she found herself has been to reduce Austria to a state of economic disaster, though possibly greater financial soundness.

Q. I would like to get this point clear before the Committee. I think it is very important?—A. It is.

Q. Following this process which you have referred to, and including what you referred to as food subsidies?—A. Yes, they are not really subsidies; they are simply named as subsidies.

Q. I know, but we must name these activities with something and that is as good a name as we can use, I suppose. Austria went through a period of artificial activity. I use the word "artificial" because I think you will agree that it was artificial?—A. No, I would not agree.

Q. Then let us say "activity" and leave the adjective out?—A. Yes.

Q. Industrial activity and agricultural activity?—A. Yes.

Q. At the same time Austria put on very drastic prohibitive tariffs, almost embargoes against importations. That is true, too, is it not?—A. I believe that is also true, yes.

Q. Then we come to a point about a year and four or five months ago, in 1921, when Austria admitted she was in a position where she was helpless and hopeless?—A. Her financiers admit it.

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Q. Well she could not buy outside. As a nation among nations she was in a hopeless position?—A. I do not think so. That is not the information I have. Austria up to the time when the drastic increase of taxation, and what we can refer to as the food subsidies—which were not food subsidies, but the application of credits to the reduction of prices, which is what they were—up to the time those things were removed, Austria was doing very well.

Q. Very good then, that is putting it in a little different way. What induced the Austrian authorities to abandon that process under which she was doing well?—A. Outside political influence.

Q. Well of course that is an assertion that I do not think is borne out by the actual evidence?—A. I think so.

By Mr. W. F. Maclean:

Q. Political influence within the State?—A. I hear someone ask what credit she was given. She was given very little credit because the course she was pursuing was the most powerful menace to the system, which I can only refer to as international finance, that could possibly exist, and that menace was so dangerous to the system that Austria had to be dealt with, and therefore she was ostracised, so to speak

By Mr. Stevens:

Q. It is difficult for us to agree on that Mr. Douglas, but the fact is that Austria did cease or abandon that particular process, didn't she?—A. Yes.

Q. Now will you follow me in this or would you mind enlightening myself and the Committee on this. Czecho-Slovakia did not follow the same method as Austria followed?—A. No.

Q. Czecho-Slovakia preferred to suffer for the time being?—A. Yes.

Q. And is she not in better shape than the other countries which followed the Austrian process?—A. Czecho-Slovakia, according to the last information I have,—which is probably six months old—up to that time she was in a dreadful state.

Q. But she is in a better state than the other?—A. Certainly not six months ago. Her unemployment figures, certainly, if that is a criterion?

Q. No, I agree with you there.—A. They were five or six times those of Austria.

Q. The same as I agree with you that England's unemployment condition is worse than Germany's?—A. Yes.

Q. But I don't think you would ask me to agree that Germany or Austria is in a better condition as a nation, as a whole, than England or Czecho-Slovakia?—A. I should be inclined to agree, as a matter of fact, but I should give a different reason probably.

Q. But as a matter of fact?—A. As a matter of fact.

Q. What I am trying to get at is facts, because I think we need these facts in order to get a correct understanding of these conditions?—A. Quite.

Q. Let us get back to Austria again then, and come to the point where we divided. Austria abandoned her previous method, this method of subsidies, embargoes and such like.—A. Let us say that they stopped.

Q. Then Austria, by the assistance of outside credit, given to her by other nations, is now seeking, and has been for the last year, with I think considerable success, as far as the reports convey, to establish or re-establish herself in the world markets, among the nations of the world. Is not that correct?—A. Well I should comment on your statement in this way, that Austria has been removed during the period 1921 to 1923 from the position of a country which was in control of its own economic affairs, and was during the period up to 1921 highly

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successful internally, although admittedly not having an external credit for reasons that can easily be understood, and she has gone through a period of great tribulation, and is now perhaps slightly approaching but has by no means reached the position that she was in, internally, in 1921, and is entirely dependent on outside influences.

Q. Then let us take it this way; that any nation or community, or let us leave nation out of it for the moment, and say any organized community that will follow a process such as Austria followed, and Germany, to which we referred yesterday must come to some time when they will have to abandon that process?—A. Oh no.

Q. Or else face chaos and disaster?—A. Oh no, I disagree absolutely with that.

Q. Yesterday you agreed to that as far as Germany was concerned?—A. No, what I said was that if she followed the exact procedure of those countries, there must come a limit, yes; but I should put against that, that it is by no means necessary to sacrifice the advantages which were gained by that procedure in order to retain continuous stability.

By Mr. W. F. Maclean:

Q. Before you leave that, can you tell us what were these things that checked Austria? Practically you say some outside intimidation changed the current of affairs?—A. I think it was the threat of absolute dismemberment and handing over to Italy. It was definitely suggested that Italy should take over Austria as a sort of colony.

Q. Who did this intimidation?—A. The League of Nations.

The CHAIRMAN: Mr. Maclean, this Committee can only have these facts established by authority of some kind, and Major Douglas says he does not know.

MAJOR DOUGLAS: I am only giving an opinion in regard to these things.

The CHAIRMAN: You said it was not even an opinion.

MAJOR DOUGLAS: No, it is hardly that. I am not covering that ground.

Mr. STEVENS: I think we ought to stick as far as possible, to actual facts.

The CHAIRMAN: We know from documents issued by the League of Nations that upon the request of Austria certain European nations, and I think the United States, loaned a certain amount of gold. We can get that in the library beyond a doubt.

MAJOR DOUGLAS: I think I had better come back within my proper province. I am getting outside it.

By Mr. Speakman:

Q. May I ask one question before the witness leaves that subject? It strikes me as very interesting and important, from what has been stated by the witness to Mr. Stevens: it looks as though the prosperity of the individual and the prosperity of the nation were in inverse ratio. That is that during the period while the nation was going to chaos, the individuals in the nation were highly prosperous, and as the nation approached a more stable condition, the individuals within the nation became less prosperous, and even at the present time there is more suffering in a nation such as England, which is on a more stable basis, than in a nation like Germany, which is not. I would like that explained to me because it looks rather peculiar if it is true.—A. I can only congratulate the questioner on his acumen in seeing that point. That is exactly the position.

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By Mr. Irvine:

Q. Mr. Chairman, before you leave this point there are two questions I would like to ask. The first is, is it a fact that one of the terms of the loan to Austria was that she limit the supply of her issue of money?—A. I think I must answer this without prejudice, as a result of the ruling of the Chairman.

The CHAIRMAN: No, that is all right.

The WITNESS: I believe that that was so.

By Mr. Irvine:

Q. If the real credit of Austria had been impaired by what she had previously been doing, is it reasonable to suppose that other nations would have rushed to her with loads of gold?—A. Of my own opinion, I should suggest not.

By Mr. Clark:

Q. Mr. Chairman, the witness has stated, as I understand him, that nations which extend credit in the way that Austria did, and go into debt to an unlimited extent, there the individuals prosper as has been stated. Now the question I asked was, Where is the nation going to get this unlimited credit? It must go into debt to do it; where does it borrow the money or the credit. The witness answered me that if I could explain how the banks are able to loan more money than they have he would be able to answer the question; but it seems to me that it is just a fog. I would like the witness to answer it in a concrete practical way. In the first place I don't know how he bases his assertion that the Canadian banks loan more money than they have. The minister of Finance has put in our possession a statement which shows that they do not, that the banks are in possession of tremendous sums of money which they never put out, in excess of what they loan. Really I think it is due this Committee to give us some concrete detailed explanation of that.—A. In regard to that last question, the whole subject of whether banks do or do not create fresh purchasing power by their operations has been gone into at very great length. If you really wish me to go into it, it is a fairly elaborate argument, and I shall be prepared to do it, but it will take some time. I can assure you that it is established as a fact that banks do create fresh purchasing powers by their operations; purchasing powers which they actually create, which did not come into existence from outside. That is established, I think beyond any question or discussion, and has for instance been stated categorically and admitted categorically by the Honourable Mr. McKenna as Chairman of the London Joint City and Midland Bank at the last annual meeting. It is a long argument and if you say that I am to go through it, I will go through it.

By Mr. W. F. MacLean:

Q. Is it the ledger entry?—A. It is a sort of ledger entry business.

MR. IRVINE: I would like to suggest that the witness give us an illustration of how the bank operates and how the credit is built up.

The CHAIRMAN: I think every member of the Committee understands that.

MR. IRVINE: If the members are satisfied I am.

By Mr. Hughes:

Q. Mr. Chairman, I want to ask one or two questions so that I may understand as I go along. If I understand Major Douglas' theories at all, they come to this: that if I for instance wanted to buy something necessary or useful, I would pay the owner of that something less than the present price and

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the national credit would pay the difference.—A. That is the way that it would appear to you as the user of the system.

Q. And is that correct?—A. It would appear to you that way; that is correct, so far as a statement of the action you would take, yes. The theory which is behind that is not included in your statement obviously. What it boils down to is, that you pay less than you pay at present.

Q. You pay less and someone else pays the difference?—A. Yes.

Q. And who would be that somebody else?—A. The somebody else might be either the existing banks or it might be the State or it might be new banks or it might be a local credit organization or half a dozen other things. That is only a question of what you might call organization or administration.

Q. Of details?—A. Entirely a question of details. The fact is that there is a source existing; we know exactly how to make up the difference between the price which we pay and the present price.

Q. There is someone then who is going to pay the difference?—A. Quite so.

Q. Well now what would be the proportion that that somebody would pay and that I would pay?—A. The proportion that you would pay would be the proportion that the total consumption of the community bore to the total estimated possible production over the same period of time.

Mr. HUGHES: I am as badly off now as ever.

WITNESS: Well, I think we are getting ahead a bit too fast.

The CHAIRMAN: I think Mr. Hughes has read Mr. Douglas' book and is, as Mr. Douglas says, getting ahead a little too fast.

By Mr. Hughes:

Q. No, I thought I saw what Mr. Douglas was coming to. If I remember correctly he stated that in the case of Austria a loaf of bread that some time ago cost 60 kronen?—A. Yes, 60 kronen.

Q. Could now be purchased for ten kronen?—A. Yes, right.

Q. And that somebody, the State, supplied the 50 kronen, the difference?—A. Quite. That is what actually happened.

By Mr. Stevens:

Q. You do not surely assert that?—A. That is exactly what did happen, as a fact.

Q. You do not surely assert that the reduction in the cost of living which now obtains in Austria from what it cost two years ago, is wholly the result of subsidies by the Crown?—A. No, that is not the statement.

Q. Or credit subsidies?—A. That is not the statement. The statement is that in 1921—I think the speaker was just quoting from what I read here—the actual cost of baking and delivering the loaf of bread was 60 kronen, and the actual purchaser of the loaf of bread only paid 10 kronen.

Q. At that juncture?—A. Yes, and the other 50 kronen was paid to the baker for someone else, by the State.

By Mr. Hughes:

Q. By the State?—A. In that case it was by the State. That is only a fact.

The CHAIRMAN: By the issuance of paper money.

By Mr. Hughes:

Q. Let us come to Canada and see if we can apply that here.—A. One minute, sir, that is not my proposition. I am not suggesting to you that you should do anything like that as it was done in Austria. I am simply telling you that that took place in Austria.

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By the Chairman:

Q. Did Austria assist in any way, except by the issuance of paper money?—A. Yes. Owing to the fact that the cost of the loaf was only ten kronen in place of 60 kronen, the actual amount of paper money, of currency, required for that transaction was less than it was before.

Q. But the State had to assist someone, the producer?—A. Yes, it assisted. If you imagine the baker having an account at a bank and passing in his account for the delivery of loaves, together with ten kronen per loaf it simply had written up in the account of that baker some money.

Q. Do you know as a matter of fact that that was the method of the operation, I mean from personal experience and knowledge?—A. No.

Q. Then I was going to ask you, when you speak of credit operations in Austria, do you mean that as being exactly the same as we understand and what you know to be a credit operation in a Canadian bank or an English bank?

The Witness: May I have that question again?

By the Chairman:

Q. What you call a credit operation or what we call a credit operation in Canadian banks is the result of an arrangement by which, for consideration, a bank gives a credit to a customer?—A. Quite so.

Q. In Austria was the credit operation carried out in the same way in recent years, or was it an unlimited issue of paper money being handed out?—A. I should say the operation was substantially similar to the creation of a credit in the ways and means account in the Bank of England by one of the great spending departments of Great Britain. I do not know how you do it here.

By Mr. Hughes:

Q. I understand the witness, however, to say, that this system, adopted by Austria, is not his system?—A. Well, it was obviously Austria's system. I am not going to say where the idea originated, but it was Austria's system anyway.

Q. I understood you to say it was a sound system. Am I correct in that?—A. I did not criticize it at all, one way or another. I simply said that thing happened and that at the time that thing happened, certain conditions obtained in Austria. That is as far as I am prepared to go.

Q. Is that system you would wish to see introduced in Canada similar to the system you have stated?—A. Not necessarily, but there were certain principles of that, reduction of price below cost, which I considered to be essential.

Q. This would be increased with that principle. Take myself for instance, I would get the things I needed, the useful necessary things of life for less than the prevailing price.—A. For less than you would be able to get them, let us say, at the present time.

Q. Less than I would be able to get them at the present time?—A. Undoubtedly.

Q. And that somebody would pay the difference?—A. If you like to put it that way.

Q. Who would make up to the owner the difference?—A. That, as I am trying to emphasize, is entirely a question of detail. It is just as much a question of detail as, in a sense, whether you have national or private banks, or whether you have national or private railways or anything of that sort. It is the transportation that matters.

Q. Then either the national credit in Canada, represented by Mr. Fielding, or the banks, would pay the difference?—A. If you like to put it that way.

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Q. I am quite sure the banks would refuse.—A. Might I just—as I feel that that was a shot that went home—.

Q. It is not intended for that. I wanted to get at the—A. I should like to examine that, because I see no reason why the banks should refuse, none whatever. At least, I do not see any reason which could be put on the table why the banks should refuse. I can see how the thing can be done, and I can explain to you, given time, how the thing can be done so that the banks do not lose by it. There is no question of loss by the banks.

Q. The banks could do that without losing?—A. The banks could do that without losing, certainly.

The CHAIRMAN: The witness is willing to go on and elucidate that point, and I think you had better let him do it.

The WITNESS: I was going to put before you, when this series of questions arose, and I think we had got to the stage where I was proposing to put before you a skeleton of the scheme. I will say that is not a scheme which we can take and plank on any public exactly as it stands, but I think it will explain to you the sort of thing that can be done. Supposing that you arranged with a large number of departmental stores that they should sell the whole of the products that they dealt in at cost, plus 10 per cent on turnover, not 10 per cent on their capital, or anything of that sort, yet 10 per cent is not vital—one, two, three, four, five, six, seven, eight or nine per cent, it makes no difference, plus an agreed percentage on turnover. In consideration of their agreeing to put the costs on the table in proper form, at proper periods of time, you would authorize them to issue with each sale—the sale would take place in the ordinary way—the ordinary amount of money, the ordinary price, et cetera. You might authorize the departmental stores to issue vouchers to a percentage of the purchase cost, and such a percentage might be given which would meet the provisions that I shall come to later on. These discount vouchers might be turned in to the private accounts of the ordinary purchaser at any bank, and the bank would treat these discount vouchers as a credit.

By an Hon. Member:

Q. Why?

The CHAIRMAN: Let the witness proceed, please.

The WITNESS: They would write up the private account of the amount of the person concerned by the amount of these discount vouchers. Now, they would get, at a certain period of time, over any given period of time, three months, or six months, anything you like—that is only a very general sort of proposition—they would get a credit from the Government to make up the amount of these credits which had been applied to private accounts. That would be a transfer of the collective credit of the country to the private account of the individuals of the country. Now the credit of a country is something of which the country or the officials of the country stand in beneficial trusteeship for the individuals included in that country, and if it is a beneficial thing to transfer that public credit to a private account, then that seems to me to be a perfectly legitimate operation. The result of that would be that you would have these stores that we are discussing—they would be in a position to under-sell by a very considerable amount—it might amount to any considerable amount, perhaps more than fifty per cent; they would be able to under-sell anybody who would not agree to the provisions which might be made for the working of this system, such as the keeping of proper costs and things of that sort. It would not mean that two or three stores would sell the same article at a flat rate, because it would be a discount, a credit discount of percentage on cost, and the costs of these various stores would vary so that you would still have exactly the

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same competition that you have at the present time, but you would simply lower the range of prices. The whole validity or the whole sanity of anything of that sort, of any proposal of that sort, rests on whether you agree that public credit is only held in trust for the individuals of the community. If you agree that it is so and if you agree that at the present time you cannot get goods over from the producer and the distributor to the consumer because there is not efficient effective demand, you must unquestionably provide the effective demand, and you are using public credit for the general individual benefit.

By Mr. W. F. Maclean:

Q. Is that not what the United States Government did with their 4,000 female clerks at Washington in providing decent accommodation and proper meals at cost price during the war, all of which was repaid, but it was on the basis of the demand more than for this accommodation and it was given to them.—A. I am not familiar with that particular instance, and I cannot answer. What I would like to make clear is the difference between that proposition and a subsidy. A subsidy is money which is collected by taxation and applied to a particular purpose, the reduction of prices or anything of that sort. It is taking money from one part of the process and putting it on the other. This money for this process is not collected by tax. It is derived by a creation of credit, and the fact is that there is a possibility for the creation of this credit. That possibility and the mechanism are in existence at the present time, and is the monopoly of the banks to a large extent.

Q. Unless it is taken by the Government?—A. Unless it is taken by the Government.

By the Chairman:

Q. Can you help to make that clear to us by an illustration of say a \$100 or a \$1,000 purchase?—A. My rough proposal?

Q. Yes. That might make it clear.—A. Let us imagine a man is buying an automobile. The automobile is valued at about \$2,000 as an ordinary price. Say it is a \$2,000 automobile. He goes to an ordinary recognized dealer, who has the automobile that he wants, and he pays \$2,000 for the automobile. That finishes the transaction as far as the agent is concerned. It is carried on at the basis that it is at the present time, but because the agent, with the assistance of the people behind him, the manufacturer, et cetera, agrees to accept an agreed percentage on turnover only, which is in addition to the cost price of the automobile, which of course is always available—because of that he is empowered to issue a certificate that an automobile, valued at \$2,000, has been sold to a private individual and he has got the money. We want you to issue a voucher representing a discount of, let us simply take a figure, 25 per cent. 25 per cent of \$2,000 is \$500. That is simply a piece of paper. It shows a discount on this sale of \$500. He takes that discount paper the next time he goes to the bank, for any other reason—and it is not really necessary it should be a bank—and he turns it in just like a cheque, and the bank receives it just like a cheque and credits his account with \$500. It has not affected the currency in any way at all. It is simply a book transaction, one way or another. At the end of an agreed period of time the bank submits to the individual the certificate that it has credited to this particular purchaser of the automobile, together, of course, with many others. It has credited him with \$500 on the basis of this discount voucher. The Government sends the credit in any form which may be agreed, again, it only being a book entry to a bank, allowing them to write up their credits by the amount of this \$500. That is in effect a transfer of national credit, public collective credit to a private account. The transaction is then

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finished. The consumer has got his automobile; the manufacturer has sold an automobile that he would not have sold before. No effect is made on the currency and everybody is happy.

By the Chairman:

Q. What could the Government give, unless it would be currency?—A. It does not give anything.

By Mr. Good:

Q. I would like Major Douglas to follow that up and give us some indication of the probable effect on prices, on production and consumption. I am very much interested at this stage, and I think a great many others are, to have some expression of opinion as to what would be the probable effects on prices generally, on production and consumption, on international trade.—A. Well of course, it would be agreed that that question covers a very wide area, but the first part of the question would be, what is the effect on prices. The first effect on prices is that you get a \$2,000 automobile for \$1,500. That is the first direct result.

Mr. HUGHES: That is quite apparent.

By the Chairman:

Q. Make it clear. I may be stupid about this. There must come a settlement day sometime between the bank and the Government?—A. We have had that.

Q. We have had it, but I did not get it. Refine that, just a little bit, and tell me what the Government does to enable the bank to have \$500 more credit.—A. It does the same thing that in the first place a bank does when it transfers from its loan account a sum to the credit of a person, an individual person, which he might draw as an overdraft.

Q. But Major, if I were borrowing a million dollars from a Canadian bank and I gave them two million dollars worth of Victory Bonds, notes, as collateral, that is something behind the loan, because it is quickly realizable, convertible into gold notes or anything. In this case apparently you put up nothing at all?—A. There is the greatest possible thing that you can possibly have under the circumstances, and that is the national credit.

Q. Make that a little plainer. I just want to understand what your scheme is.

Mr. IRVINE: Could he answer the question put by Mr. Good and take up credit a little later.

The WITNESS: The first part of Mr. Good's question referred to what would be the effect on prices. As I was saying, the effect is you get your \$2,000 automobile for \$1,500. That has altered the ratio between the amount of purchasing power distributed and the price taken back. You will see where that impinges on the first part of the discussion. The anterior result would be that the automobile manufacturer could quite clearly sell more automobiles. Given the same sort of automobile this company has got, you can sell more of them at \$1,500 than you can at \$2,000. That increases the productive demand. I am sticking strictly to the question of prices at the moment. He makes more automobiles, and his actual costs decrease. The result of that is to, after a short time, decrease the original sum that he had to charge for the automobiles of \$2,000 and to bring the price down still further. That goes on for some time until the equilibrium is reached where his overhead charges and his wage charges begin to increase, and he cannot bring his costs down any more, but the effect of the process is to cause the actual cost of producing an automobile to decrease. We

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are only dealing for the moment with this specific case of the automobile. I have no doubt Mr. Good would say "what is the effect on other things." The effect on the prices of other things is rather complex for the moment, but it frees \$500 which would have been spent on an automobile to be spent on something else, and for the moment we are assuming that the something else is not subject to this process. The result of that is to increase the demand for this something else, and for the moment because the demand is increased it is probable that the price would go up. It would not go up very far before somebody would suggest that as it had been possible to bring down the price of automobiles in that way, it would be possible to apply the same process to the thing which had risen in price; and I think the logical conclusion would be that the system would extend. That is broadly the process that I see in regard to prices. Now, the second part of your question—

By Mr. Good:

Q. Would you pardon me just before you leave that; what is to prevent a continuous increase in prices such as we find when we have this free printing of what is called fiat money, you know what I mean by the question?—A. Yes.

Q. What is to prevent that?—A. Because the rise of prices which occurs in connection with the printing of what is referred to as fiat money, takes place in accordance with the assumption that the price of an article is what it will fetch, and if there is more money in the market in relation to the same amount of goods, and people want the goods, then it is clear that the articles will fetch more money, and that is what causes the rise of prices in connection with what is called fiat money. That takes as an axiom that you have a rise of prices in connection with the increased supply of money, but if you apply the increased supply of money, if you like to put it that way, to the reduction of prices, that is a condition of affairs which cannot possibly take place, because the application of the money does not take place unless you get the fall of prices. It is impossible, if I say I will let you have \$5 towards an article which costs \$20 if you charge \$15 for it then you do not get the \$5 unless you charge \$15 instead of \$20; and the provisions which can be made to ensure that that takes place are perfectly obvious, by means of such a thing as the discount voucher or something of that sort; so that the rise of prices cannot possibly take place.

Q. Just before you pass to the second question, there must be a limit to this process, there must be some limiting point, is there not?—A. Yes, there is this limiting point which I am afraid aroused a little amusement but I must go over it again. We have been discussing for about two days, and I have been trying to emphasize the fact there is no production problem, that the productive system is straining to produce far more than it is producing at the present time. The reason it does not produce more than it does at the present time is not because people do not want it, but because they cannot buy it. If the productive process can produce more than it is doing, and people can physically consume more than they are doing, what they want is an increase of purchasing power to equate those two. The increase of purchasing power which is required to equate those two, that is to say,—I will make it still simpler, to increase the purchasing power which is required to draw on this unused capability of production and delivery is represented by this discount. If there is no unused capacity to produce and deliver there can be a discount. The justification for that discount is unless you have a reduction of prices people cannot draw upon that unused capacity to produce and deliver. That is the justification, and that is the basis on which that discount rests. Now, then, you say must there not come some end to this process? The answer to that of course is purely hypothetical, that is, can the people consume as much

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as a production system can possibly deliver? I can only give you my personal opinion about that, because nobody has tried it except perhaps during the war. All I can say is I do not believe for a single instant that the possibilities of consumption can ever reach the possibilities of production.

By Mr. W. F. Maclean:

Q. Was that the line on which Austria was moving when she was interrupted?—A. Only very tentatively I think.

By Mr. Kellner:

Q. Major Douglas, before leaving that automobile proposition, suppose you went to your agent and bought your automobile to-day, and there was collusion between them, what would there be to prevent the agent going back and selling you that same car to-morrow, and each one of you would get your credit slip for \$500?—A. The answer to that is merely the sort of thing you are always coming up against in organizing any sort of a system. You have a system of numbered credit vouchers, let us say—I am making this up in my head at the moment—you would have a system of discount vouchers which would bear the same number as the automobile engine and the chassis number, let us say, and then you would simply issue that particular discount voucher with that automobile.

By Mr. Cahill:

Q. Suppose it were a calf, how would you mark it?—A. I suppose you would have to brand the calf.

By Mr. Good:

Q. May I ask another question: supposing it is practically impossible in any particular industry such as farming as it is carried on in Canada to keep cost accounting, how would the theory be applied to such an industry to determine say the prices of farm produce?—A. Well, I propose to answer that question, but I should like to say that that is an illustration of the sound grounds that I think I take when I say I am not putting forward a detailed scheme. That is why it is clearly and obviously necessary to spend a great deal of time in actually investigating the difficulties which have to be met in regard to a thing of that sort. No doubt a thing of that sort might be a difficulty, but I can see there are plenty of ways of getting over it, that you can establish a cost system. It was done in England during the war for agricultural produce, quite satisfactorily; it worked very well, but for some reason it was knocked on the head and has gone out of use. But there was during the period of food control a very admirable cost system in use in England, and the actual cost of production of agricultural produce was ascertained very carefully, and that would, I think, be the thing that would have to be done here probably. But there are ways round it in any case.

Q. May I ask another question, dealing with something that was taken up yesterday or the day before; do you regard it as true that banks under the present system can control or affect prices? It has been denied by at least one very prominent banker that the banks can or do affect prices?

The CHAIRMAN: Why not let the committee centre their questions upon the matter we have been discussing? and let your question stand for the present.

Mr. Good: Very well.

The CHAIRMAN: Does anybody wish to ask Major Douglas any questions?

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By Sir Henry Drayton:

Q. What do you do in your cost fixing when you have different bases of cost? We had cost fixing and we found we had to drop it because the cost to one man was entirely different from the cost to another; what do you do there? For example, in farming we have one set of costs in one province and another set of costs somewhere else. We found, for example, in milling that one overhead would enable the smaller mills just to get along and would enable the larger mills to make altogether too large a profit; how do you treat costs there?—A. The proposition, the very intensive proposition which I am putting before you at the moment, involves the application of a fixed discount to a variable cost.

Q. In the same trades?—A. Yes. So that in that case you see you would have people in the same trade selling their products at a generally lower level, but still at a variant price; so that naturally what would happen would be that the man who produced cheapest you would allow him a profit on turnover—

Q. There again the prices are just the same, although you produce an agricultural article more cheaply in one province than the other the prices are practically the same, they sell at a common market?—A. In this case they would not be. A statement of cost is undoubtedly in some form or other an essential in such a proposition; and whatever the cost is you have the agreed percentage, commission or profit, or however you like to put it, on turnover for the last dealer in the thing, and you apply to that final price a flat discount which applies to all sets of costs of that kind, probably to all sets of costs of all kinds. Let us say that is 25 per cent, let us say the unit cost of an article is \$100 in one case, and \$150 in another, and applying the discount of 25 per cent you get the selling price of the first man as \$75, and the selling price of the second man, \$112.50—25 per cent off \$150. The two prices vary just as they vary at the present time. What happens as the result of that is, of course, up to the limit of capacity you buy the product of the cheapest man, which is of course what you should do, but his capacity probably comes to an end, and you are forced back on the products of the second man.

Mr. Good: There would be a rush order to that party.

By Sir Henry Drayton:

Q. Let us see again, supposing we take something where the prices are the same, you have a large flour mill with a low basis of cost, and a small flour mill with a higher basis of cost, they both sell at the same price?—A. But they would not in this case. At the present time they make a protective ring to the disadvantage of the consumer.

Q. It is generally fixed at the price of the most expensive?—A. Yes, and that is to the disadvantage of the consumer. What we are trying to do is to get a position in which more consumers can get the article, and we enable all these people to get the same amount of turnover that they got before probably; but their prices differ.

By the Chairman:

Q. If this \$500 credit slip is not a convertible document of value, then the automobile is being sold below cost, is it not?—A. The costs looked at from that point of view is simply an issue of purchasing power, that is all it is; it is simply an issue of a certain number of tokens which enable him to draw supplies from the general production. Those tokens as tokens need not necessarily have cost anything anyway, and the object you have in view is to get the goods over from the producer to the consumer. It is the basis of the whole of this argument, that you do not succeed in doing that at the present time, and this

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is a suggestion as to how you could get them over. The actual fact that you get over more tokens through the productive process than you do through prices does not really matter at all, it is only a ticket system, the present thing is only a ticket system, but we have been so hypnotized with the idea that there is something real about money that it is very difficult to learn that it is only a ticket system.

Q. In your book, the man who is collaborating with you used the illustration of coal in England; what is his name?—A. Orage.

Q. You were to sell coal for domestic purposes in England below cost, coal for industrial purposes in England at cost?—A. Yes.

Q. And export coal prices were to be whatever you could get?—A. Yes.

Q. Why do you divide it up in that way, or why did Mr. Orage?—A. It was my scheme. Well, because the fundamental idea is that the business of the country is carried on for the benefit of the individuals in the country, and the object of selling coal to consumers below cost is because the consumers represent the individuals of the country. There are not any individuals who are not consumers, and you make provision in that specific scheme, which I think is quite unsuitable for Canada; it has never been suggested for Canada.

Q. I would think so?—A. The object of that specific proposal was to get the coal over to the consumers at such a price as they could buy it at. It may be of interest at the present time to mention that the cost of coal to the consumers in England is 62 shillings per ton, and for the same coal for export purposes it is about 20 shillings per ton; that is to say we pay three times as much in England as they do in Argentine for the same coal.

Mr. Goop: That is an extraordinary thing.

By Sir Henry Drayton:

Q. Would you apply this to imported articles or merely domestic articles?—A. We regard all imports from this point of view as production, and all exports as consumption.

Q. Would you give this discount on imported goods?—A. Yes, just the same; but that is not essential; it is not a matter of principle.

By the Chairman:

Q. To carry out your scheme in Canada it would be necessary I think to have all the provinces agree, because after all in most respects the scheme would come in under provincial jurisdiction; how would the thing work out if Alberta adopted it and Manitoba said no? Could one go along by itself?—A. There would be a great rush of immigration to Alberta.

Q. Would you make them happier there?—A. Undoubtedly.

SIR HENRY DRAYTON: I was wondering if the Major could not give us a concrete illustration, I think he should before he goes, as to how exactly his ratio between production and consumption works out, particularly having regard to the fact that he complicates the question of production by imported articles?

MR. RYCKMAN: I wish to make a short statement before we adjourn. I would be unwilling that any of the committee would be of the opinion that it was altogether accepted that in 1921 the condition of Austria was prosperous. I happen to know that it was not. There was a class of the new poor whose hardships were such as they had never experienced before. One of the most human documents I ever saw was addressed by the employees of the Courts of Justice in Vienna to those engaged at Osgoode Hall, Toronto, prefacing the appeal with the statement that being in kindred employment we ought to be sympathetic, that we had no idea of the hardship that was obtaining with

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them, that the purchasing power of their remuneration had so lessened that they were in want, absolute want, and going the length of suggesting that even if contributions in money could not be made, perhaps contributions in kind might be sent over. This was in 1921. I quite admit that some of the farmers with some of this money that was so freely in circulation, thought themselves momentarily rich; even the industrial classes with what they were receiving in these factories thought themselves well off. At the same time there was a stratum in Austria that was undergoing such hardships as, please God, we never may experience in this country. .

WITNESS: I should only just like to say in regard to that, the last speaker I think made my case for me. He said that there was a class which owing to the rise of prices was in such hardships as he quite correctly says he hopes we shall none of us experience. That is the whole point. These applications of credit only covered a very narrow area, and the price of other things rose to fantastic heights without the shadow of a doubt, and it was because of that rise of prices that this trouble took place.

The CHAIRMAN: The point you raise is a matter of argument, Mr. Ryckman, and it does not follow we are accepting the view that Major Douglas takes. We will meet to-morrow morning at 11 o'clock, when Major Douglas will be here again. He hopes to finish before the close of our morning session. He will be followed by Sir Edmund Walker of the Canadian Bank of Commerce.

The Committee adjourned until 11 a.m., Thursday, April 26, 1923.

THURSDAY, 26th April, 1923

The Select Standing Committee on Banking and Commerce met at 11 a.m. Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: The Committee will come to order, please. I wish to say to the Committee that we should have notice of any proposed amendments in the regular way under the order of motion, and I think they should all be in by the early part of next week, because I should hope that at the last of this week or the first of next week we should begin to finally dispose of the Bank Act, Bill Number 83. I suggest that the Committee do not meet on Monday morning next. I think the members of the Committee will be satisfied with that. On Monday afternoon Mr. Irving Fisher, of Yale, will appear before the Committee. On Tuesday an appointment has been made to hear the Canadian Federation of Insurance Agents, represented by Mr. Andrew Haydon, Barrister of Ottawa. I hope we shall be able to finish with Major Douglas this morning and also conclude the statement of Mr. Powell, of the Weyburn Securities Bank, who desires to leave as quickly as possible for New York. I think we should attempt to accommodate him.

Major HUGH DOUGLAS, Examination concluded.

Mr. STEVENS: Mr. Chairman, I would like to have the privilege of making a statement, correcting I think, an erroneous impression left on the Committee yesterday by a question and reply by Mr. Irvine and the witness on a matter of importance. I had questioned the witness regarding the Austrian situation, and later on I was called out of the Committee and could not return to that subject.

[Major Hugh Douglas.]

Mr. Irvine put a question to the witness, which I have not under my hand, but in substance it was to the effect that outside nations would not have loaned to Austria unless Austria had good credit or substantial credit, to which the answer was given by the witness that undoubtedly that was true. Furthermore, the witness gave another answer to a previous question to the effect that outside influence had been brought to bear upon Austria, inferring, I think, that Austria in the re-vamping of her financial system was more or less under duress or compulsion.

Now I have in my hand the League of Nations Report, Volume 3, March 1923, which should be studied by the Committee, together with a great deal more that preceded what is in here. I will read just a few extracts to put on record what I think are definite facts for the judgment of the Committee, having reference to the question of duress or compulsion, in the report of the Committee. I now quote:—

“The Committee of Control received from the League of Nations High Commissioner at Vienna the text of the Austrian proposals with regard to the possibilities of a loan. After hearing the views of the Commissioner General and of the Austrian financial experts, it studied these proposals.”

Then it goes on with the details of the loans.

I quote that for the purpose of showing that the point of compulsion did not enter. Here is another extract:—regarding the law conferring plenary power upon the Commissioner. I now quote:—

“This law was necessarily a constitutional law, requiring a two-thirds majority; this involved agreement with the Opposition parties. In the form in which it was ultimately passed the law creates an extraordinary Cabinet Council, consisting of members of the Government and twenty-six members elected by the National Council so as to give representation to the different political parties in proportion to their numbers.”

In other words, it was a non-party Cabinet. In addition to that the report declares that a law granting these special powers was voted upon unanimously by the Austrian Parliament. So much for that. Now I wish to give a brief extract from the preface to the report, as follows. This refers to the objective in view in regard to this transaction, which transaction was largely between Great Britain, France, Czecho-Slovakia and Italy, the main part.

“It aims at enabling Austria to balance her budget in two years, by the end of 1924, and to be henceforth in a position to meet her expenditure with her revenue without either borrowing on inflation. As it was essential, however, that inflation should stop at once, while it would take two years to reduce expenditure and increase taxes enough to balance the budget, it was necessary to meet the deficit of the two years by loans.”

This was arranged, and details are set forth in the report. Now I wish to make a brief reference to the new bank of issue which is as follows:—

“It was an essential part of the League’s scheme that the issue of paper money by the Government to meet its expenditure should cease, and that for this purpose a new Bank of Issue, independent of the government, should be created, and should alone have the right of note issue.

“The necessary legislation, including the new Statutes of the Bank, was passed by Parliament on November 14th. The inflationary issue [Major Hugh Douglas.]

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of notes by the Government ceased on November 18th. The capital of 30 million gold crowns required was duly subscribed and the new bank opened its doors on January 2nd.

"The bank is under the control of a Board which includes no official, and with the exception of its President, Dr. Reisch, all its members are elected by the shareholders.

"The operations of the Bank are purely commercial. Neither the Federal Government, the Provinces nor the Municipalities issue paper money or can have recourse directly or indirectly to the funds of the bank for their own needs, without paying in gold or securities the exchange value of the notes received. The issue of notes will be kept within fixed limits, the metallic cover being increased by stages from 20 to 33.3 per cent." and so forth.

Now, it then records that there was an immediate improvement in the situation, and gives a reference to the first balance sheet. I think it is in the end of January. The figures I shall not read. They are all here for anyone who desires to do so. In regard to the return of confidence, there is this extract I would like to read:—

"Owing to the return of confidence, the supply of foreign currency—at a rate of exchange which within narrow limits remained stable—proved largely in excess of the demand. The 'flight from the crown'—

That is the monetary denomination—

"was replaced by a return 'flight to the crown.' Foreign securities and currencies previously hoarded were brought back and converted into crowns."

The "flight from the crown" is a phrase that has grown up in recent years, particularly; that is that under the inflationary currency there was a flight of gold and other real usable securities from the State. This refers to the return of these upon the re-establishment of the crown by this process. Then it refers to an increase in deposits during the month of January in the savings banks, for three months rather, the last three months, of over 500 per cent.

Then regarding the question of unemployment, which was raised by the hon. member for Red Deer I think, and upon which he was complimented for his intelligence by the witness, which I think was wholly due—that point however was stressed, and the report goes on to say, having reference to the witness' statement regarding unemployment, as follows

"It had been agreed between the Austrian Government and the Delegation that 100,000 officials should be dismissed before July 1st, 1924, i.e., 25,000 before January 1st, 1923, and 25,000 during each subsequent half year. The Austrian Government carried out the first stage of this programme practically up to time. On December 31st, 23,651 officials had been dismissed, and by January 13th, 1923, the number had risen to 25,494."

It goes on with some further explanations. One other reference to the general economic and financial condition, which has a little further reference to unemployment.

"Austria has not been able to avoid an industrial crisis, involving extensive unemployment. During the last quarter of 1922 the number of unemployed rose from 57,849 to 120,525 in December.

The reason for it is this: No one denies that there was not an increase of unemployment, but it is desirable that the Committee should have before it

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factual facts and not simply statements which sometimes gives an impression that there was an altogether extraordinary position. I have given you the figures in the quotation. The quotation proceeds:—

"It was, however, foreseen that this must happen, and when the Council approved the plan for the reconstruction of Austria, special attention was called to a passage in the report of the Financial Committee, in which it was pointed out that Austria has hitherto been living upon public or private loans which had voluntarily become gifts; that the new advances must be used for the re-establishments of public finances and not—as in the past—for current consumption; that therefore Austria would have to consume only what she could produce; and that the only alternative to collapse into a chaos of destitution and starvation was a very painful transition period of reform."

The reason I read that is to show, as I tried to state yesterday, and I think the witness agreed with me on that occasion, that any nation adopting the inflationary process must reach a point where, as this statement says, collapse into chaos and so forth will occur; and in order to recover from that position, or on the other hand to avoid that position they must pass through what is described here as "a very painful transition period of reform."

Now I think, Mr. Chairman, that it is desirable that this should be placed on record, and I merely wish to add that I think the Committee and every member of the Committee ought to study that report in detail, as well as many other reports which preceded it, leading up to the events referred to and recorded there.

The CHAIRMAN: Now, Major Douglas, will you proceed?

Major DOUGLAS: I have listened with great interest to the statement which has just been made, and I have really nothing to add to it. It does not affect my statement of yesterday at all.

There is one point I should like to make clear in regard to certain statements I made yesterday, in regard to the fact that, as I see it at any rate, the present situation arises out of a lack of purchasing power on the part of the people for whom the industrial system undoubtedly exists, in any sane conception of it, that is to say the consumer. There is no sense in having a production system unless you get the products of the production system consumed. The consumer came before the producer, or at any rate the need to consume came before the production, we will say. It is very commonly imagined—particularly by what I will refer to under the omnibus term of Socialism—and contended, that the reason that the poor cannot buy enough is because the rich can buy too much. And there I must emphasize what I said in another place, that I am not setting up as a sentimentalist, I am not here as a representative of the poor, or anything of that sort. I am not so poor that I cannot occasionally buy a meal for myself—I am merely stating facts—but it is very often suggested that the reason that the poor cannot buy enough is because the rich can buy too much. In other words, that the real trouble in regard to the admitted inadequacy of the financial system is the inequitable distribution of money, and if you once begin to admit that, then you see that the remedy is quite easy; it simply takes some form of taxation; you take it off the rich and you give it to the poor. That seems at first sight very simple, and that is the sort of thing to which most attention is directed; but I want to make it clear to you as an addition to what I said yesterday, that that is not adequate explanation.

There is a recognized authority on this subject of the distribution of national purchasing power. He is recognized because he is retained by all the people

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that I suppose you would mostly say I am attacking. He is the recognized statistician of the British banks and so forth. That is Professor Bowley, who stated that the total British income—I can only give British figures, but they refer very much to pretty nearly any country I suppose in regard to their proportion—the total British income in excess of £160 per head per annum is only 250 millions which would mean if distributed to ten thousand heads of families—and remember the population of the British Isles is about 45 millions—it would mean £25 per annum per family, in excess of what they have at the present time, assuming that this distribution did not reduce the production of wealth, which of course it most undoubtedly would. If you have taxation above a certain level, you begin to seriously decrease the number of people who can employ what we call the luxury trades, and you would of course begin to decrease the actual production and would also then begin to decrease the divisible income in that way. I quote those figures to make it as clear as it is possible to make it that there is no solution of this lack of purchasing power which at any rate we say is the core of the whole trouble—there is no solution by taking it off the rich and giving it to the poor. The fact is that there is not sufficient available purchasing power to buy the possible available product. That is the point, and that situation is only met at the present time by a strenuous competition for export markets to get rid of this production which cannot be bought at home, and so to get from the export market an additional number of tickets with which you can keep the situation going for a time in the producing country. I wanted to make that explanation to remove any possible misunderstanding.

The CHAIRMAN: Mr. Douglas is available for questioning, and please put your questions as briefly as possible and as quickly as possible.

By Mr. Good:

Q. I was hoping somebody else would start, but I have a list of questions that I would like to ask. I understood the witness to say yesterday that the difficulties in our economic system which he outlined existed before the war, and that therefore in his opinion the dislocation of industry and trade during the war and by the war which has lasted I think up to the present, could not be held responsible for the present situation. I have heard it said that the whole trouble at the present time is the dislocation due to the war. I would appreciate a little further explanation of his point of view in that connection. —A. I should put it in this way, that the economic result of the war was immensely to stimulate production. The war provided an enormous outlet for production because it broke up production and used it or wasted it, as you like to put it, just as fast as it was produced. Accompanying that immense growth of production, or if you like preceding, was the creation of an enormous body of fresh credits. Those credits were distributed through the agency of wages and salaries and so forth, particularly of course wages; those credits were distributed to the general population. The result of that was to put into the hands of the general population a greatly increased capacity to buy. The result of that was that first of all you had a tremendous rush on the accumulated stores of goods in the shops and so forth; so that most unquestionably the standard of living rose. Following that was the inevitable result of an increase of what we might call purchasing power unaccompanied by any change of financial system. The fundamental proposition of the existing financial system is that the price of an article is what it will fetch, and, other things being equal, if you increase the amount of money which is available against a given amount of goods, a process of rise of prices will take place under the existing arrange-

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ments. That rise in prices is not inevitable; that is the point that it is necessary I think to bear in mind in considering those statements that were made in that League of Nations Report over against the statement that I made yesterday. The rise of prices is not inevitable; but if the rise of prices is allowed to take place, if the issue of fresh purchasing power is made in such a way that the rise of prices is allowed to take place, then the effect of the inflation, and inflation undoubtedly is self-compensatory,—that is to say, that only for a very short time is there a real increase of purchasing power,—the only thing which enables the people to buy goods, more money for a short time while that pure inflationary process is going on, is the lag of prices behind the issue of fresh purchasing power. As soon as this gap between prices and purchasing power is made up, you are exactly where you were before, but the reason there of course is you have allowed prices to rise. Now, the question was how was this only an extension of what was going on before? And the answer to that is that practically all new production at the present time is financed out of loans. I think you will see very shortly, very clearly, that that must be so. If you consider the position of two men with a capital of \$100,000 starting in the same business, one of them adopts the policy that he will put the \$100,000 entirely into plant, into factories, machinery, and so forth, and he will rely on bank loans through the discount of bills for overdrafts or something of that sort, for the necessary means to carry him over through the wage paying period from the time he gets an order to the time that he delivers the goods and gets the money for them. The other man says he will only put \$50,000 into a factory and plant, and will keep the other \$50,000 in the form of liquid capital, as the phrase goes, in order to finance himself; and they both want to pay we will say 10 per cent of their money. The first man has a plant which is twice the size of the second; he has a possible output of twice as much as the second man, and the consequence is that either he can make twice the profit, he can turn out twice as many articles making the same profit on each article, and therefore make twice as much money, or alternatively he can reduce his price. Making the same profit he can reduce his price by a certain percentage on each article produced, so that he can always undersell the other man. So that you will see from that it is practically inevitable that sooner or later everybody will tend to finance their production through bank loans. Now, when those bank loans are made, they are creations of fresh credit, and they are just as much creations of fresh credit as were the creations of fresh credit which took place to finance the enormously increased production of the war; so that you have normally in normal times this continuous automatic inflation going on. There is under our present system a continuous automatic inflation going on. That would normally cause a continuous rise of prices, but that continuous rise of prices is offset in normal times to a considerable extent by an improvement of process which would normally decrease prices; so that you have these two opposite processes taking place at the same time, and as they are in opposite directions they are very apt to mask each other, and you do not see the process going on; but owing to the abnormally increased production of the war we did see the process going on, and prices rose very fast. I think if you will follow that explanation you will see that the process is one and the same thing.

By Mr. Good:

Q. I noticed in the book by Sir Thomas White a statement that we had paid for the war as we went along, and it seemed to me a very striking statement. I wonder in that connection whether you would venture an opinion as to the accuracy of that statement, and also whether or not during the process of the

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war the world generally got poorer in capital equipment, capital goods, as well as in consumable goods—

The CHAIRMAN: Please be brief in your questions. You precede your questions by a statement, and it takes up a considerable time.

By Mr. Good:

Q. I wanted to get my idea clearly before the witness.—A. I will make my answer very brief in deference to the Chairman and make it simply a statement of opinion. I have no doubt we did pay for the war as we went along, and I have no doubt we have paid for the war several times over since, and that is the answer to the first part of the question. The second part of the question was, was the capital of let us say the belligerent countries greater after the war than it was before the war, and I should say unquestionably and so far as Great Britain is concerned, I think I might quote Mr. Cram, I think it is, who estimated that the real capital of Great Britain on a conservative basis, I mean Great Britain itself, not the British Empire, the real capital of Great Britain after the war was certainly not less than 50 per cent greater than it was before the war; and was probably very much more than that.

Q. Do you attribute that increase in spite of the tremendous waste of the war to the issue of credits during that time and the stimulus to production derived thereby?—A. Most unquestionably; it could not have occurred in any other way.

Q. I have been trying to grasp the fundamental idea of Major Douglas: is it this, that there is a tremendous potential reservoir, if you like, of labour and resources which can only be tapped as we facilitate the transfer of the wealth produced to the parties who consume it, and under the present system in your opinion there is a blockade in the transfer?—A. Both those statements are unquestionably correct, yes.

Q. There has been a good deal of difference of opinion expressed here as to the possibility of the banks under our present financial system influencing the price level. It has been denied by at least one prominent banker. What is your opinion as to the possibility of the banks under our present system influencing the price level by the expansion or contraction of loans and the consequent expansion or contraction of the volume of money?—A. The banks most unquestionably can exercise an all-powerful influence on the general price level. They can do it in this way: they refuse to finance further production. I am putting that broadly; that is to say that they restrict credits to manufacturers, restrict the discounting of bills and so forth, they raise their rates. The result of that is to make the holders of stocks of goods, I do not mean necessarily shares, but merchandise, the result of that is to make the holders of those stocks throw them on the market because they have to have money to carry on. The result if carried far enough is to make the holders of those stocks go through the process that I was describing yesterday as being one method of getting the goods over from the producer to the consumer, that is to say that the holders of those stocks offer them to the public below cost, and supply the difference in the price they sell at and the price they get by their own credit, thus, in common language, selling at a loss, and that does of course clearly enable the price level to be depressed.

By Mr. McMurray:

Q. Is not there already an excess of production, and if the bank did not refuse loans the excess would still be there?—A. You can only answer a question as to whether there is an excess of production by asking the majority of the people in the country if they have all that they want. If they have got all

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that they want then of course there is undoubtedly an excess of production, but I should undoubtedly doubt the existence of a general consensus of opinion that we have all got all we want.

By Mr. Good:

Q. The statement has been made in some of these pamphlets, and by witnesses here, that the increased volume of money, credits included, is due not to any action on the part of the banks, but to increases and decreases in prices, and your statement is challenged as putting the cart before the horse. I am very much interested in getting that matter cleared up?—A. The only specific instance—I am afraid I have not got that little booklet “Banks and Banking” here—but the only specific instance I know in regard to that statement, is the statement in that book, that it was the fall of prices which caused the shrinkage in credits and so forth.

Q. That has been stated several times here before the committee?—A. Of course it is clearly a question of the fact, and so you can only quote authorities on the facts; and that statement is directly in opposition to the statement of Mr. McKenna at the meeting of the London Joint City and Midland Bank.

By the Chairman:

Q. That is the contraction of credit preceded a fall in prices?—A. Yes, that is his statement.

Q. The Board of the Federal Reserve of the United States give very convincing figures that the very opposite occurred in the United States. I think Mr. McKenna's statement is being rather distorted out of its proper place; it is only a general statement?—A. Well, sir, this is what you might call the logic of it.

Q. That is a fact, Mr. Douglas, that a fall in prices did precede a contraction in loan and credits of the United States, and here again the United States currency system is the same as England; normally I mean, they are on a gold basis. In England you got unemployment and in the United States you did not get that. Which is the cause and which is the effect?—A. But they did have it; they had six million unemployed in the States. In any case there is this to be said in addition perhaps as bearing on the subject, that preceding the restriction of credit—and it may bear on the exact meaning of these statements—preceding this the restriction of credit was a definite warning that the restriction of credits was going to take place, and the result of that was to cause everybody who knew anything about things to throw their stocks on the market, to get out before the fall of prices got too great, and that would tend to cause a fall of prices.

Q. Nobody of standing in England objected to the contraction of credit, did they? A certain number of people think the contraction was too rapid; does not that represent the variation of opinion in England on this question?—A. I think there are really all shades of opinion on it.

Q. Generally speaking, is that not about correct?

MR. IRVINE: The more general the opinion the more likely to be wrong, I should say.

By the Chairman:

Q. Among bankers and financial students?—A. I should say that the opinion was rapidly veering from any agreement at all with the deflationary policy to a very strong tendency to challenge the whole policy as a whole, that I think is the best answer that I can give on the subject.

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By Mr. Woodsworth:

Q. Would a return to the so-called gold standard be desirable, or would it materially affect the situation at the present time?—A. In the first place, I believe that in any recognizable meaning of the words return to the gold standard, the thing is in the first place fundamentally an absolute impossibility. That is, if you are going to say that a return to the gold standard means an absolute free market for gold in Great Britain and an absolute convertibility of forms of legal tender into gold on demand, I think that such a thing would be absolutely impossible. But quite apart from that I am perfectly certain that a continuance of the policy of basing your credits on currency and tying in any fixed way the currency to gold is bound to create both a political and an economic catastrophe. I am absolutely clear about that.

Q. We are told it is absolutely essential that we should have gold in order to carry on our international trade. On what other basis could we do it?—A. The first part of that question of course is simply a statement, I think it is perfectly true to say that it is an interested statement by people who hold the gold. Nobody will take any form of currency, money, simply for the intrinsic properties of that money; they only take it because it is again exchangeable into something else. If you create and demonstrate the absolute certainty that any form of currency is reconvertible into goods and services, then that form of currency is absolutely suitable for international trade.

Q. As other less advanced nations gradually adopt our present financial system, what will be the effect on the older established countries?—A. The effect of the gold standard and of the general principle of basing your credits on your currency and not basing your credits on your capacity to produce and deliver goods, the general effect of that is to make it impossible for the producing country to absorb its own production. As the world becomes more generally industrialized, more countries assuming the existence of the gold standard, using that as a general phrase, the more countries get into that position. The result of that is a fiercer and fiercer external competition to export, and a more strenuous competition for external markets to dispose of the stuff which you cannot sell in your own country, and to dispose of it externally with a view to getting export credits into the country to keep your machine going. The inevitable outcome of that situation is war; there is no other outcome. The economic competition becomes so strenuous that eventually some further factor than mere economic competition is bound to intervene, and that of course is war.

By Mr. Good:

Q. Have you any reason to believe that these forces were operating prior to the last war, and leading to it?—A. Yes, I have considerable reason to believe that. I cannot in the least pose as a general authority on these questions, but I can only tell you that it has been suggested to me that really the core of the last war was the determination on the part of Germany to become dominant in South America, particularly in Brazil, and to some extent in the Argentine, and that she had reached a position in which her necessity for exports forced on her by exactly this situation was such that she could see in sight no market over which she had sufficient control except Brazil and South America generally, that she was ringed round economically by other nations to a very large extent, except in those places, and that in order to really exploit the South American market she had to become dominant politically in South America as well as economically in the ordinary sense of the word. She already owned most of the property in Brazil that was owned by anybody outside Brazil, and her object was to have that war quickly and sharply, and get it over in about three or four months, and be then in a position to defy the Monroe Doctrine, and to exploit Brazil. I am only giving you this—

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The CHAIRMAN: Mr. Good, I do not believe it would pay us to inquire into the origin of the war.

WITNESS: I was only answering the question.

The CHAIRMAN: Your answer was first rate, you could not do better.

Mr. GOOD: It is pretty hard to confine this investigation very closely.

The CHAIRMAN: You introduced a very wide subject, and I am afraid it will be in debate for centuries.

WITNESS: Probably.

By Mr. Good:

Q. The witness was detailing yesterday a hypothetical example of the proposed system. It occurred since then to ask him whether or not there would be any possibility of applying this proposal to the much desired getting of Alberta coal into Ontario—we are up against a serious situation in the matter of getting coal, freight rates, and so on—is there any possibility in your judgment of applying it to such a problem?—A. I should never think of applying any general principle to a specific case without investigating the specific case.

By Mr. Woodsworth:

Q. Just in that connection; we have had more or less the outline of Major Douglas's scheme. We are at the present time faced with certain economic conditions in this country. We also have a well established financial system, and we are in this committee asked to extend the franchise of the banks, which I take it have a monopoly at the present time of the currency and credit of the country. Now, what would Major Douglas suggest practically as the way of attaining his objective? He says we do not need to abolish the banks; what should we do with them? How should we begin to nationalize this credit along the lines he suggests?—A. First of all I should deprecate the word nationalize in regard to the bank, merely because it conveys a wrong impression. There is no connection between this proposition and any particular form of administration. Nationalization as commonly understood is a form of administration; it does not alter principles at all, and these principles do not criticize or impinge in any way on private administration or public administration or anything else. Those questions are left quite unsettled by what I am saying. I should suggest that the position is this: as I see it—and that is why I was interested in that pamphlet which was issued by the banks—the banks demonstrate at any rate to me and to an increasing number of people I think, that really the bankers do not understand what they are doing. Their own statements seem to me to be directly contradictory in themselves, and we have this situation existing which I think is generally agreed to be very serious. It is also perhaps becoming more generally agreed that this serious situation does turn on the financial system and having had a statement made with all the authority that it was possible to make it, that certain things are so in regard to the financial system, it does not seem possible that those statements can really be substantiated. So that I should suggest as a practical proposition that perhaps efforts should be made to induce the banks to come down from this position of authoritarianism which they have adopted as being the only possible authority on the subject, having demonstrated that their authoritative statements are not perhaps bullet proof, and that as a practical proposition having come down from that, they should wait a little bit and have a little general discussion with all interested parties as to how the situation could possibly be bettered without impinging in the slightest possible degree on their legitimate functions; so that you would have everybody very much better off, and you would remove, prob-

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ably—I say probably you would remove—a great deal of the dissatisfaction, or let us say stem the rising tide of criticism which is being directed against the situation as it stands.

By Mr. Woodsworth:

Q. I do not know that we have got a great deal further along the line I want. Supposing we do get the bankers to come to the state of mind in which they recognize that their authority is not absolute? Then, what? We are faced with an actual situation to-day. I do not know that the witness should hesitate to make certain suggestions as to what could be done. Applying his principles, should the privileges the banks have, be extended to them at the present time? If banks should still be recognized, under what limitations should the privileges be granted? Should we attempt to set up some other financial institution side by side with the banks, and if so under what conditions should it be operated? I should like to have something practical along this line.

By the Chairman:

Q. Can you answer that Major Douglas?—A. No, I really cannot answer that. That is a descent from a proposition which is universally true in every country at the present time, and particularly in Great Britain, with which I am familiar, to a situation involving an investigation of actual detailed facts, and I am not in possession of those detailed facts, so that I cannot make any concrete detailed proposition.

By Mr. Stevens:

Q. Assuming the possibility of putting your proposal into effect, and thus increasing the purchasing power of the masses, does it affect your proposal at all, or the welfare of the community, the nature of the purchases made by the individual receiving the increased purchasing power or the disposition he makes of the increased purchasing power?—A. Oh not at all.

Q. Whether he buys wine, liquors, silk shirts, or anything of that kind.—A. I do not offer any opinion on what he ought to buy at all. All I say is that you want to increase the purchasing power, and the producers want to produce more and the consumers want to consume more. And I do not take up any position whatever in regard to the desirability of what he ought to buy. That does not seem to me to be a sound subject for economic pressure.

Q. It does not make a particle of difference how he expends that?—A. Not a particle.

By the Chairman:

Q. Assuming for the moment that I was the man who purchased your £2,000 automobile, and I could take that ticket which gave me a credit at my bank for \$500; supposing I was intending to go to London the next day and I wanted to buy a bill on London, which is a gold transaction as we understand it; and I bought that draft for \$500; and supposing a million other Canadians did the same thing, went through that same process. What would happen?—A. I think I can answer that better by carrying you through a sort of process. In the first place, the proposition made yesterday means in effect that you are now getting something for \$1,500 in Canada that you used to pay \$2,000 for. In other words, your Canadian dollar has, in goods, 25 per cent greater purchasing power. Now whoever buys your Canadian dollar with the currency of some other country—assuming for the moment that the exchange is a free market—whoever buys your Canadian dollar, buys it ultimately with the idea of buying something with that Canadian dollar; so that he is prepared to pay up to 25 per cent more for your Canadian dollar

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than he previously did because it will buy in Canadian goods 25 per cent more than it would before. So that you will buy, let us say English currency, taking the situation as it stands, at 25 per cent less than you previously had to pay for it. That is to say that your Canadian dollar will stand at 25 per cent premium. That is unquestionable if you assume that exchange is a free market. But it is not a free market. Exchange is in the hands of a very small number of people and they make the price of exchange. The price of exchange does not vary in accordance with the economic condition of the country. It varies very largely in accordance with the price made by the money changers.

Q. What would happen to the Government, who gives in turn to the bank a credit slip for that \$500?—A. May I just continue what I was saying?

Q. Yes.—A. The immediate probable result of such an arrangement would be that an attempt would be made to depress the exchange value of the Canadian dollar. This is a practical situation that you might expect, for reasons that it is not necessary to elaborate. The result of depressing the exchange value of the Canadian dollar would make it possible to buy Canadian dollars more cheaply with external currency, for the moment. If those Canadian dollars bought with external currency, each dollar would buy 25 per cent more in Canada than it did before, so that you would be buying Canadian dollars at less than their economic value. The result of that would be that everybody would rush to buy Canadian dollars and would expend those Canadian dollars in buying Canadian products. The result of that would be that you would have an enormous increase in production in this country, which, taking things as they stand at the moment, is of course what you are looking for.

The CHAIRMAN: Now Mr. Irvine have you any more questions?

Mr. IRVINE: I have very few to ask, Mr. Chairman. I just want to make sure that I understand the points that have been covered by the witness.

By Mr. Irvine:

Q. Do I understand that in your opinion to regard money as a commodity is proof of a misunderstanding of the definition of money?—A. That is my opinion.

By the Chairman:

Q. Just a moment, there. Would you call gold bullion a commodity?—A. As gold, yes.

Q. Well, it is currency also, because minting is free isn't it?—A. There is not a free market in gold at the present time.

Q. But never mind the present time. Take normal times.—A. Pre-war times?

Q. Yes.—A. There was a free market.

Q. Banks can make settlement in gold bullion can't they?—A. Only as a commodity at its market price at the moment.

By Mr. Irvine:

Q. That is the distinction then?—A. Yes.

Q. Do you regard this commodity view of money as being fundamental to the present financial system?—A. I do, yes.

Q. Is that equivalent then to saying that it is based on a misunderstanding of the definition of money?—A. Undoubtedly, of the proper definition of money.

Q. Is it reasonable therefore to expect that an institution that does not understand the definition of that commodity which it is handling, might be expected to handle it in the best possible way?—A. Well, I don't think it is reasonable to expect that.

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Q. If money then is used as a commodity, which in your opinion is fundamentally wrong, would it be thus directed to a purpose different from the real definition of money?—A. Yes.

Q. What would you say that purpose was at the present time?—A. I can only suggest that it is an attempt to get a complete control of the process of production and distribution, so long as it has any conscious aim at all. I sometimes wonder if it has any conscious aim at all, but if it has any conscious aim that could be the only sane conscious aim.

Q. Would you say then that the talked of gold basis is a theory rather than a fact?—A. Oh, undoubtedly.

Q. Would you say also that it is a false theory?—A. I would.

Q. Would you be correct in concluding then that in your opinion the system of finance of Canada, of Great Britain and of other countries that maintain the same system, are doing their banking on a false theory?—A. I think I could probably convey a clear impression to the general audience, and the Committee, if I said in regard to that, that there are, for all practical purposes, only two financial theories operating in the world at the present time. One is the gold basis theory, which at the present time is intimately connected with deflation; and there is on the other hand pure inflation, unmodified inflation, such as broadly speaking has been taking place in Germany. Now the world is split by those two theories, and you have, irrespective of any difference of race or of conditions of local wealth, natural wealth or resources, or anything of that sort, two parallel sets of conditions which are common to all countries operating under one of these financial systems. And you have a totally different but equally menacing, probably, set of problems which are existent in the countries which are operating under the other financial system. The object of that statement is to make it clear that the financial system is sufficiently important and powerful to override all differences of race, and all local resources and riches and so forth. Where you have inflation you have one set of problems; and where you have deflation and the gold standard, you have another set of problems. They are a different set, but they are absolutely common to all the countries which are under those systems.

Q. A short time ago we had a practical banker giving evidence—I think it was Sir John Aird—who said that he was a practical banker and did not do business on theory. Do you think he was in error in making that statement in view of your expressed opinion that the gold basis is itself a theory?—A. I think it would be fair to give Sir John Aird—whom I have not the honour of knowing—credit for simply proceeding automatically along well recognized lines, which he probably never thinks about.

Q. You have I think asserted or affirmed that a financial system built theoretically on a gold basis is responsible for the present industrial chaos?—A. I believe that firmly, yes.

Q. Do you believe that the present system of finance, in view of the industrial chaos, can last indefinitely?—A. I do not.

Q. Why do you think it cannot last indefinitely? Do you say as a mathematical certainty it will end, or is there some doubt about it?—A. No, I think it will end, as a mathematical certainty.

Q. Could you state in a few words the reasoning by which you arrive at that conclusion?—A. There are two or three things involved; one is the steady rise of overhead charges in manufacturing in relation to direct labour charges, which further complicates the relation between the purchasing power available at a given moment and the goods to be purchased. That is one thing.

There is another thing, that you have at the present time really no alternative between an almost unmanageable unemployment problem and a policy of

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modified inflation, which, taking the financial system as it is, at the present time, results quite inevitably in a fairly rapid rise in prices. If you follow the first line, and restrict your credits and so forth and try to get back to the gold standard and so on, you are absolutely bound to have a most formidable political problem resulting out of unemployment. If you take the other line you get an equally formidable problem arising out of the rise in prices, and the general kick of everybody against those prices. So that you have no alternative either way.

By Mr. Woodsworth:

Q. May I interject a question there regarding labour costs. It is commonly said that we could place ourselves in a much better position for producing more, by reducing the cost of labour, that our solution lies along that line. Is that true?—A. I think that absolutely no solution at all, because a reduction of costs means nothing else than a reduction of the distribution of purchasing power. Costs are a distribution of purchasing power; so that if you reduce your costs you reduce the money which is out in the world with which to buy your production. So that there is no solution along those lines.

By Mr. Good:

Q. You mean that lower wages would only complicate or aggravate the situation?—A. Whether it would aggravate it depends on an exact examination of such things as overhead costs and so on; but it cannot better it.

By Mr. Woodsworth:

Q. It is said that by economizing, by public economy in the services, we would be in a better position; that is cutting down our expenditure for schools, hospitals, parks and all sorts of public services. Is that correct?—A. It is only correct in this sense; it is a fact that it is absurd to do anything that you do not have to do. That may be a waste of labour and so forth. In the financial sense it may be just correct in this sense, that it takes a certain amount of money off the market in relation to purchasable goods, and so has the effect of deflation. That is to say it reduces the demand for those goods, and therefore tends to keep the price from rising. That is all you can say about it. But by reducing the demand for those goods, it also increases the unemployed problem.

By Mr. Irvine:

Q. You have found in your study of this question, I gather from your statement, that the more extensive use of credit has resulted in more production, more consumption and less unemployment. Am I right in that?—A. As rather a disconnected statement, that is undoubtedly true, yes.

Q. And that the opposite is true, when contraction of credit has been effected, it results in increasing unemployment and want?—A. Undoubtedly.

Q. As evidenced by the illustrations which you used from the Continent of Europe?—A. Yes.

Q. What in your opinion would be in the best interest of international bankers in regard to the stabilizing of the financial system? Would it be in their interest to maintain the present financial system as interpreted by you?—A. I cannot speak for them; I do not know what they want; but all I can say is that they look as if they were trying to continue it.

Q. Would you say that from appearances they are more interested in retaining the present financial system than they are in conveying the produced goods to needy consumers?—A. Yes I think that is so. I do not think that they think in terms of goods and services at all. That is the impression that the situation gives me.

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Q. It would appear then that the financiers have a direct interest internationally in maintaining the present financial system?—A. Yes I think that can be said.

Q. If then pressure was brought to bear by international bankers on Austria to bring her from her issue of her own credits, back into the financial fold, is it likely that that pressure would have been made apparent in the deliberations of the League of Nations?—A. Absolutely not.

Q. They would not be quite so silly as to do a thing like that, would they?—A. I don't think they would.

Q. At least we give them credit for more intelligence than that. They would be more likely to bring their pressure to bear on the Austrian Government from within Austria than to make the plea come from outside, if they were wise men; in other words, it is not more wonderful that the Austrian Parliament was unanimous in acceding to this demand, than that the Canadian Parliament was unanimous in granting a Bank charter to the bankers of Canada. I mean that it is not a more unreasonable proposition.—A. It seems possible.

Q. In other words, the so-called soundness of the financial system may be maintained while the industrial situation may become more precarious?—A. That is so.

Q. Because the objective, so to speak, of the economic situation, is not the same between the two?—A. It is increasingly remote, yes.

Q. Does it appear strange to you that while Austria was ostracized for having too much money, the nations wanted to cure her monetary disease by giving her more money?—A. Well, of course I am only giving my personal opinion about Austria, very largely, but it looks as if it would bear investigation, yes.

Q. Would you say the moneys which Austria received from other nations at a high rate of interest had any more real value than the money which she was asked to destroy before the money was received from them?—A. No.

Q. It did not help to get more goods from the producer to the consumer?—A. Not internally, certainly.

Q. Would you mind giving us a definition of credit which would be the basis of your proposition as given to the Committee?—A. Well, that is very easy. The fundamental, the real basis of credit is the ascertained capacity to produce and deliver what is required by the community on whom the credit rests. That is the basis of real credit; the ascertained capacity to produce and deliver.

Q. Would you distinguish between that and the financial credit which we have been discussing?—A. Yes, the financial credit might be said to be the ascertained capacity to deliver money, which is not the same thing.

Q. Could financial credit be considered as an expression of part of the real credit under your system?—A. Yes, for any proper working, or any working of the industrial productive system, and the financial system there must be an intimate relation between the basis of financial credit and the basis of real economic credit.

By Mr. Spencer:

Q. You mentioned financial credit in relation to delivering money. Do you include with that book credits that are placed to the credit of clients through their securities being handed over to the bank?—A. Well, for the purpose of the description of money, anything that would function as money may be said to be money; and to the extent that credits will function as money, they are money.

[Major Hugh Douglas.]

By Mr. Woodsworth:

Q. How can this real credit be ascertained, by what body and by what method?—A. It is very simple really; there is such a thing in existence now—it is not up to date—but there is such a thing as a census not only of production but a census of possible production. There is always a difference between the output of a given factory and the possible output of it and so forth. That is the difference between the present output of course and the possible output. Those things, or most of them, are on record. That does not allow for a number of other factors that do come in and that is what would be the extension in the manufacturing facilities provided if the payment were made for the manufactures when they are made.

By Mr. Good:

Q. It is not an essential part of your proposal to ascertain that very definitely?—A. No, it is not.

By Mr. Woodsworth:

Q. Without going into the administration end in detail at all, what kind of body would be fit to handle the credit of the country?—A. Allowing everybody the fullest credit for being reasonable, under reasonable conditions, I see no reason at all why the present banking system should not, if necessary function perfectly well just as it does at the present time, under such a proposition. There is nothing in the proposition of itself which in any way affects the functioning of things as they are. The only thing that does happen is that you get everybody very much happier, that is all.

By Mr. Good:

Q. You mean that the present machinery of the banks, the personnel, are fairly competent to appraise a man's credit or what should be his particular share of the nation's credit, is that the point?—A. Ah, well, no; that would not come under those conditions, to such an extent, under their functions. They would appraise very largely his capacity to produce, and the extent to which he should be allowed to employ the public credit. That comes into questions of detail rather, but the actual distribution of the public credit, the amount of public credit which would be distributed to individuals for whom the public bodies are trustees, if they are anything at all that seems to me to be essentially a public matter. The banks, as I see it, would become a highly technical and responsible and increasingly important administrative body. They would administer the public credit for the beneficial ownership of the public, and they would do it very much, to look at, in the way they do it at the present time.

Q. They would become a public service?—A. I regard every form of service as public service; that is purely a question of terminology, whether a man so-called privately administers. If the public gets the good it is a public service.

By the Chairman:

Q. You are opposed to any form of socialistic government; you do not favour that, and you are not very keen on nationalization of industries?—A. I am not.

Q. You do not think either of those things would be very helpful?—A. I base my general dislike of that sort of thing, without being very bigoted, on the fact that I believe all those things tend to get too big, and they become hopelessly inefficient.

[Major Hugh Douglas.]

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Q. Are you against our present social and economic order, that is the capitalistic or competitive system? Would you abolish it altogether, or merely modify it?—A. I should merely modify it.

The CHAIRMAN: That is what I thought.

By Mr. Spencer:

Q. Major Douglas informed the committee a short time ago I believe that the world had warning of the deflation that was going to take place. I would like to ask if he could give us where that warning came from, and about what time it took place?—A. I am informed—the first part of the answer will have to be made with reserve—but I am informed that the genesis of the policy was in New York. The first public announcement in regard to the matter in Great Britain was the speech by the Chancellor of the Exchequer who I think then was Mr. McKenna I see some one at the back of the hall knows who it was. It was in 1920,—I have forgotten the exact fact as to who was Chancellor of the Exchequer,—but it does not affect the statement. He said it was impossible for him to make any progress in regard to the restriction of new government credits, if as fast as he made steps in this direction the banks issued large commercial credits, and that was I think almost universally regarded as a warning to those who had ears to hear that the restriction of commercial credit would then commence.

By the Chairman:

Q. I think I could put my hands on some books in the library written two or three years before the Armistice wherein the public were warned about deflation?—A. Yes, but not authoritatively.

Q. Just as authoritatively as the Chancellor of the Exchequer or any banker in England, or any excellent student—it was bound to come, was it not?—A. I am merely recounting facts; that I think is the only answer I can give to that question.

By Mr. Euler:

Q. I have not been present on all occasions during this examination, but I gather that the witness states that our great difficulty comes from the lack of power to purchase. I also gather that there is a relationship so far as credit is concerned between the power of production we have in the country and the desire to purchase, is that correct?—A. That is rather like saying that there ought to be a relation between a gas balloon and a half a Crown; there ought to be a relation between the actual drafts that are made on production and the capacity of production, yes.

Q. If that were true in a practical way would your suggestion be that there should be unlimited credit according to the desire of those who wish to purchase, and where would you draw the line? Would you, for example, advocate that the banks or institutions of that kind should extend credit to the full desire of the people to purchase?—A. I think you prefaced what you said by saying that you had not been here all the time. The contention of course is the banks are only using public credit, and that it is public credit they are using; and the further contention is that there is only one common sense object in having an industrial productive system at all, and that is that it should deliver goods to the people in the country, that the object of having people and an industrial system is not to have the people serve the industrial system, but to have the industrial system serve the people. If that contention is admitted, then what you have to do is to find some method by which the people, individuals, can

[Major Hugh Douglas.]

draw on the industrial system either up to the limit of the capacity of the industrial system to supply, or the limit of their personal demands, whichever comes first; that is what the thing exists for.

Q. Supposing you had the industrial system, the producing system quite up to the demand, we will say, at the present time; if you extend that credit in accordance with the desires of those who wish to purchase, do you not think that those desires would extend again and again, and then have an action upon the productive system in its turn?—A. Yes.

Q. Where would it end?—A. It amounts to this, it is my firm and clear conviction that the industrial system can always at the present time meet far more demands than can be made on it, and that this tremendous expansion that you would suggest would be very temporary, it would only result from the extraordinary state of mind into which people have got, that we only hang on to this panic by the strength of our eyelids, that it is really only with the greatest difficulty we can live, whereas as a matter of fact it ought to be quite easy to live. If one could get that idea out of people's minds, it would not take very long—I would not say it is going to be done in six months or six years—but it could be done; then you would not have that effect.

Q. My idea being that human nature being what it is, if you grant unlimited credit their desires would expand out of all proportion to what would be well and good—

The CHAIRMAN: Gentlemen, I think we must conclude the questioning of Major Douglas now, and I hope when I make that decision I am not cutting anybody out or doing any injustice to any person.

Mr. SHAW: I suppose he will be available if we want to ask him any questions?

The CHAIRMAN: I don't know, you will have to inquire of him. Mr. Douglas cannot remain here at the pleasure of the Committee for any length of time.

Mr. IRVINE: I would like to have Major Douglas available for a few questions.

The CHAIRMAN: If you can arrange it and it is satisfactory to him. Could you remain here?

The WITNESS: Having come so far I want to help as far as I can.

The CHAIRMAN: Let us understand this, Mr. Irvine; you may want to recall him.

Mr. IRVINE: Yes.

The CHAIRMAN: It must be understood, however, that it will be just for a few questions.

Mr. IRVINE: Yes.

The CHAIRMAN: We cannot call a person to express his views upon a subject, and then have him come back and contradict in rebuttal somebody who has followed him, because otherwise we would never get through.

Mr. SHAW: But still we have lots of time. We only get an opportunity once in ten years at this Bank Act, and I feel the fullest opportunity should be given.

The CHAIRMAN: We have been here two days.

Mr. SHAW: Yes, I know, but I think the Bank Act is of such vital importance, if you are going to put a time limit on it—

The CHAIRMAN: We are discussing not the Bank Act, but Mr. Irvine's resolution.

[Major Hugh Douglas.]

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Mr. IRVINE: That is more important.

Mr. SHAW: Many people think it is more important.

Mr. SPENCER: It seems we cannot give too much time to both sides of this all important question.

The CHAIRMAN: I can conceive that there must be a limit to it. There is no use sitting going over the ground all the time, the same thing. There has been very considerable repetition.

Mr. IRVINE: I assure you I would not expect Major Douglas to repeat the whole thing over again. If I recall him again it will be to ask certain questions arising out of his own position.

The CHAIRMAN: I think it is only fair to say that Major Douglas is the advocate and almost the creator of an economic system which he has supported with vigour and persistency here. I suppose if he had not great faith in the system which he advocates he would not have taken the trouble to cross the ocean and appear before the committee. Whether we agree with him or not it matters little to him, I suppose, but I think I am speaking for the committee when I say we are very glad to have had him appear before this committee, and we thank him for his appearance before the committee. The views which he has expressed will induce perhaps a study of finance and banking and economics generally on the part of not only the members of the committee, but the citizens of the country.

Major DOUGLAS: Might I be allowed to say that I appreciate very much,—and I assure you I am speaking quite frankly,—I appreciate very much the extreme fairness and the latitude and the consideration that I have been given in putting forward what I know must sound rather at first sight extraordinary ideas.

The CHAIRMAN: We must dispose of Mr. Powell this morning, because he wishes to leave for New York to-morrow, and there have been many requests that Sir Edmund Walker appear before the Committee this week. Accordingly I asked him to appear here to-day. I hope that Sir Edmund Walker will appear before the Committee at four o'clock this afternoon. Mr. Powell, will you please come forward. I really do not know if any members of the Committee wish to ask Mr. Powell any questions. He has been here twice before.

Mr. H. O. POWELL, recalled.

By Mr. Spencer:

Q. During the time the witness was on the stand the other evening, he made the statement that an investigation had been made of a number of farmers here who were clients of his bank where the figures show that they had made a profit I believe of an average of \$600 each. I would like to ask Mr. Powell how much does he, in getting those statistics out, allow for a family of five as a living allowance before profit was considered?—A. Possibly, Mr. Spencer, you would like to have these figures. I have a summary here. I will try to be brief, but in order to make this plain I have to make a little explanation. A year or two there were complaints from almost every direction that banks were not giving credit enough; just as at the present time the banks in a great many cases are being criticized because they gave too much credit, and some of our younger managers—

Q. Excuse me, the answer I want could be given me in a very few words. In mentioning in this sheet of statistics that the farmer was getting so much

[Major Hugh Douglas.]

of a profit, how much income did you allow him for a family of five?—A. We did not figure it out that way; that was not what I was after in this at all, but the results do not need to take that into consideration whatever.

By Mr. Good:

Q. Did he have to live out of the \$600?—A. No, he had that left as a profit after having lived, I do not know what the average was of living, but the fact is he accumulated \$600, and saved it over and above the unearned increment in land.

By Mr. Spencer:

Q. You do not know how much he spent on say a family of five?—A. No.

Q. Because we all know that the average scale of living on the farm in Western Canada is not very high?

The CHAIRMAN: Perhaps you had better let him explain the statement.

By Mr. Spencer:

Q. I have a couple more questions on the list. In summing up that statement what did you allow the farmer for depreciation?—A. We did not give the facts; the farmers gave us these facts. We did not ask these facts, they gave us these facts themselves.

By Mr. Good:

Q. Did they allow for depreciation of buildings and machinery?—A. I do not know how they got them at all; we took the facts given us by 240 farmers distributed over the whole territory, ten to each branch.

Q. What amount was due to enhanced land values, if any?—A. None; we took that out. Our figures cut out all unearned increment in every case.

By Mr. Spencer:

Q. For what purpose did the farmers give you this statement?—A. The only way I can tell you is to give you the history of this—you are asking questions that possibly have no bearing at all on that statement, but I will give you the history of the statement, and it was of great interest to us, and has been to a great many others, farmers as well. The farmers that gave the statement are just as much interested, and they have been compared and talked over, and I thought possibly you would like to know that the condition was as good as it was; that is why I gave you the figures.

Q. I want to get at the root of this statement. The other point was you said you do not know whether the farmers in giving you those figures allowed anything for depreciation?—A. The farmers gave us the figures; I don't know how they made them up.

Q. Did the farmers in giving that statement allow anything for interest on capital outlay?—A. I could not answer any of these questions, because we did not make up the figures.

Q. It is very doubtful I take it: those figures have never been carefully looked into by an auditor, and it is quite possible they do not allow anything for depreciation and interest on capital outlay?—A. It has no bearing on this statement whatever.

Q. Compared with a statement of an ordinary business if they had allowed for interest on capital outlay, and for depreciation and possibly something for their time probably they would not have shown a profit of \$600?—A. But you are talking about something you have not looked into; you are asking questions that have no bearing on the statement.

Q. I am asking you a question you cannot answer?—A. You are asking me questions about the statement which have no bearing on the statement.

[Mr. H. O. Powell.]

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Q. I have asked you questions in regard to the statement which you cannot answer; until we do get the answers to those questions then you cannot prove to this Committee that the farmers made \$600 after having sized up their business in an ordinary business way?—A. I think I have proof, yes.

Q. Would you give us the proof?—A. I am perfectly willing to if you will give me a chance.

The CHAIRMAN: This statement of the witness had better be filed as an Exhibit.

Statement produced by Mr. Powell, being summary of farmers' comparative statement, filed as Exhibit 13. (See page 100.)

Mr. SPENCER: As long as we have the statement I think that would cover the point.

The CHAIRMAN: It might not.

Mr. SPENCER: I want to congratulate Mr. Powell on the success that he apparently has made of banking in Western Canada when he is banking only in Western Canada, and when at the same time we find bankers who are heads of large joint stock concerns in eastern and western Canada saying that if it had not been for their branches in eastern Canada they could not have carried on their business in the west; I would like to ask Mr. Powell how he accounts for that, that he has made a success where the others claim they could not have done it?—A. You mean we have no branches in the east so we have not the chance to draw money from other sources than just our local points, that is the point?

The CHAIRMAN: Not quite. He states that other big bankers have stated that if it were not for the funds which they secure in the east they could not do a banking business in the west, and he wants to know how you do it?—A. Simply because we have six men who started the bank who never needed to borrow a dollar, who had surplus funds to invest, and any time that we were in need of more moneys they were in a position to give them to us.

By Mr. Spencer:

Q. Whenever they gave you those funds I suppose they took security from you to secure them?—A. I don't know as that would make any difference whether they deposited money with us, or whether they bought paper from us, as long as we were put in a position to accommodate our customers, and we have.

Q. Do you give them security?—A. No.

By the Chairman:

Q. This support comes from American firms?—A. The six men who started this bank, who have backed it from the start.

By Mr. Spencer:

Q. Who are I take it making profit out of the bank as a commercial concern?—A. Just the same as any other stockholder.

Q. Would you mind telling me what percentage of your deposits are created by direct loans?—A. I cannot give you that, I never figured it out that way, and I never had it put to me till the other night in the corner over here.

Q. It was a common custom in Alberta, and I don't know whether in Saskatchewan—I want to find out whether it was with your bank, that in 1920 the bankers throughout that country strongly advocated to the farmers the

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need of going in for buying cattle. They gave them credits very readily, and in 1921 and 1922 they just as readily squeezed those same clients to force those cattle on to the market irrespective of whether they were losing or not. Did your bank do the same thing?—A. No.

The CHAIRMAN: He has gone over that before.

By Mr. Spencer:

Q. What did you do?—A. We took every person's needs into consideration and we dealt with them just as if they had been a member of a family. Everybody got just everything we could do for him, and we asked him to do everything he could for us. If you will just take into consideration that all these troubles and everything are only in one big family, and if everybody would do his part as a member of the family, we would get along. There is no family the members of which can always have what they want, when they want and all they want exactly.

Q. In a great many instances last year when the harvest was ready to be cut, the farmers were refused in Western Canada the actual money to buy binder twine, and this spring they are being refused in many cases money to buy seed grain. Is your bank carrying that out?—A. We advance credit wherever it would be safe. Sometimes we have advanced one way and sometimes another. We have done everything we could to advance the interests of the community; we are in the community to serve, and we are trying to give all the service we can and do it safely. We have other things to defend as well as accommodating the customer. There are the depositors, and they have to be taken into consideration first of all.

Q. You do not know what percentage of your deposits are created by loans?—A. No.

Q. And the loans are created on the credit of your customers. Do you think that a bank should be allowed to start with a smaller capital?—A. I know we could not have started with any smaller capital; all I know is what we were able to do.

Q. I understand your average per cent that you are charging is about 9 per cent, you charge a little less and you charge a little more. Do you think in the present conditions that farmers can afford to borrow and pay 9 per cent?—A. Yes.

Q. I understand you are paying 4 per cent on your deposits?—A. Yes.

Q. For which I think you should be congratulated. Are the banks who are in competition with you paying the same per cent?—A. I don't think so; I think they are only paying three; I think we are the only bank in Canada that I know of that is paying four per cent.

Q. Then you must have all the deposits?—A. No; there are six banks in Weyburn, and they have all got some good customers we would like to get.

Q. I understood from a remark you made the other night that the United States banks are continually paying a compliment to the Canadian system?—A. Ever since I was a boy I have heard those compliments paid.

Q. Why, therefore, are the American banks so persistent in refusing to go into what is usually called the branch system?—A. They are not all of them, only just some of them.

Q. The great majority?—A. You will have to give me a little time on that. I referred the first day to the system in the United States and the system in Canada. There had been the United States system. Alexander Hamilton had originated it, Canada adopted it to a certain extent, and through jealousy it has been upset. Then the United States National Bank System was the outcome of the emergency of the Civil War, and that was continued, and they found it

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was wanting. It had failed, it had not given what was necessary. Then with this system which had been running for these years, all over the country they tried to put on top of it some of the most valuable features of the Canadian system to make their system a more workable system, and a system that could give better accommodation to their people. I am a firm believer in the point that evolution is better than revolution. This was just simply a step in evolution by the United States bankers when they put your currency system on to their system, and a chance to shift funds from one part of the country to another part of the country to make them available where they were needed and when they were needed, just as your system makes it possible for funds to be distributed from one place to another where they are needed and when they are needed. Now, to have kicked out all of the little banks all over the United States, closed them out and said "Now, gentlemen, start a branch bank system," you would have had a revolution, but you would not have had evolution. It would have been very costly; it might have worked quickly, but it would have taken a long while to build it up.

Q. Do you think therefore we shall see in the near future, that is to say in a year or two, that the United States will go to the branch system of banking?
—A. The branch system of banking is coming in very rapidly in the United States.

By the Chairman:

Q. What you mean is when the Reserve Banks were established, that enabled the American banking system to mobilize and demobilize credit, which the Canadian system is capable of doing?—A. Always has done. It is a known fact that our peaks are not as high as the peaks in the United States, and our depressions are not as low as the depressions in the United States, due to the fact that we have a more even policy, had not this up and down policy which has been called by the United States system of banking largely. There are those in the audience that can talk with more authority than I can. I will not try to go into these things too deeply. We will leave that to Sir Edmund Walker.

By Mr. Jelliff:

Q. I would like to ask how many farmers they have got in that district covered by this statement?—A. That was taken from twenty-four points, ten men to the point.

Q. How many farmers would there be in each of those localities?—A. On an average I would say that a country branch has from 150 to 200 customers, that would be about the average.

Q. What would be your idea as to profits that had been made by those other farmers?—A. I will have to give you the history of the statement.

Q. I would like to know a little more?—A. Do you want the history?

Q. I would like to have it?—A. This proposition as to the restricting of credit was the reason that a circular was sent out which was the basis of this. I asked the managers to take the first statement, the oldest statement that they had of the customers that were still in the business, and their latest statement, and figure out how much they really had accumulated in the time, so that we would get some idea of what a man could make in our district on the farm.

By Mr. Shaw:

Q. When was the circular sent out?—A. This circular was sent out about two years ago, and this statement does not include this year's crop, one of the best crops in years. Interest was taken in this by our managers and others who heard about it, and so a comparative statement was prepared at the Head Office

[Mr. H. O. Powell.]

to try and figure out just what a man had when he came to the country—every man can tell you exactly what he had when he got there, so that that was easy to get. Then we had their most recent property statement on file. We asked the managers to try and select men that had done on an average what the community had done, not select a man who was of outstanding ability, not to select a man who was an outstanding success, to try and get a few renters, to try and get a few farmers of quarter sections, some of half sections, and some with three-quarter sections, and some with more. Some were sent back two or three times to see they were right, and we knew every man on these statements—I know practically every man on this statement personally, because we visit our branches that way. The facts are that a review was made this winter of this statement, and after checking it over we find that the managers were over-conservative and took men below the average rather than above. Even if some errors had come in when you take 24 men doing the work, one man might make an error one way and another the other way. But now the statement. The average number of years that the 240 men had been in our territory was twelve years; the average liability at the time that they came to the territory was \$2,870.44; the average net worth on arrival in territory was \$1,942.95; the liability now, \$5,608.53; the average net worth now is \$14,914.82; the average accumulation while in the territory, \$13,103.60; the average annual accumulation as computed from the statements given by the farmers \$1,045.24; the average annual accumulation after deducting unearned increment in land values \$628.28. We find that the renters had accumulated on the average \$393.46; that the quarter-section men had accumulated \$295.79; that the farmers with a half-section had accumulated \$488.46; that the people with more than a half-section had accumulated \$779.83—I will go a little further and say we found that the three-quarter unit was the best unit in our district, and that has been carried out also by the investigation of the North Dakota Agricultural Station—

By Mr. Spencer:

Q. There is an interesting point, that it is shown according to these figures, that the larger the farm up to a certain size the more profit they have made, and as Mr. Powell says the three-quarter section farms have the best results. That is your opinion?—A. Perhaps I should not have introduced this to the Banking Committee. It came up the other night, but I do not care to press it any further.

The CHAIRMAN: It is interesting, but like all averages it is not very conclusive. It is interesting to have it.

By Mr. Shaw:

Q. You have heard of course of Hon. Duncan Marshall, the former Minister of Agriculture in the Province of Alberta?—A. Yes.

Q. These figures which you have would rather discredit his view that 160 acres is the maximum which can be worked with efficiency by a farmer?—A. I don't know anything about that.

Q. Have you never heard about him?—A. Not much, no.

Q. Do I understand from the compilation that you have made, that the figures are taken irrespective of the number of people that might be engaged in the particular farms. For instance a farmer might have two or three sons who were engaged with him in the enterprise?—A. Taken, as I said, from the property statement given by the farmer of what he had when he came to the country and what he has to-day.

By the Chairman:

Q. Nothing more?—A. No.

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By Mr. Shaw:

Q. The statement with regard to what he has now was taken from his own bank statement?—A. Taken from the statement that the farmer gave us himself.

Q. You have always found I suppose that they gave you an exactly correct statement?—A. No, but I think our managers could be trusted not to put any liars in here.

Q. I suppose if you go to a bank you are not going to depreciate your assets?—A. We know there are customers that do.

Q. They are in the minority?—A. As a rule our men are very honest.

Q. Your customers never exaggerate the value?—A. Yes, we have customers that do, and we check them. These figures are carefully checked, and there has been practically two years work put on this statement, and they are under rather than over the facts.

Q. I gather from the statement made that the farmers in your section of the country, regardless of the number of family they might have, have averaged \$628 profit per year?—A. That is what the statement shows.

By Mr. Good:

Q. There is a question whether or not in this average there may not be some special accumulations during the two or three years of high prices, and also whether or not there is not a certain neutralization from the accumulation of federal debt or provincial debt during the period?—A. We were very fortunate through our territory in not having big crops during the high prices, and due to that fact our farmers are in far better shape than they would have been had they had big crops. So that that does not enter into it very much. Our farmers were getting hard times when the prices were high.

The CHAIRMAN: Any more questions? Then, gentlemen, I suppose that concludes the examination of Mr. Powell. I remember when he was before the Banking Committee at the last revision, his statements were very interesting and illuminative, and I think that can be said of his remarks to the Committee on this occasion. I think it is only fair to say we are much indebted to Mr. Powell for having come such a long distance to appear before the Committee; and we thank him.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING

April 26th, 1923.

The Select Standing Committee on Banking and Commerce met at 4 o'clock p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: We have with us this afternoon Sir Edmund Walker, president of the Canadian Bank of Commerce. I might point out to Sir Edmund that there are two matters before the Committee for consideration, first the Bank Act, Bill No. 83, and the Resolution dealing with financial credit, which was referred to the Committee by the House of Commons, on the motion of Mr. Irvine, a member of this Committee. Now, Sir Edmund is available to the Committee for questions, and I would suggest it would be preferable to confine our questions at the beginning say to the Resolution and later to the Bill. We have followed that order in the past, and I think it better that we adhere to it. Mr. Irvine, I would look to you to be the first in the ring.

Mr. IRVINE: I think Mr. Good has some questions.

[Mr. H. O. Powell.]

Sir EDMUND WALKER, called and examined.

By Mr. Good:

Q. I do not like to monopolize the time of this Committee. I have been speaking quite a little bit. There is some information I would like to get from Sir Edmund, but there are a lot of others who probably wish to ask questions.

The CHAIRMAN: You proceed.

By Mr. Good:

Q. Mr. Chairman, we have heard a great variety of opinions expressed with regard to what fiat money is. There seems to be a general dislike of fiat money. There has been a partial admission that we have fiat money now. I would like Sir Edmund to give us his conception of fiat money, and in connection with that, how far our present money in Canada is fiat money.—A. I might say, gentlemen, that fiat money is money issued by a Government without gold as its basis, and not redeemable, but passing on the fiat of the Government, passing simply because the Government says that it is legal tender. I would not like to say we have any fiat money in Canada at the present time, because of the war. We have an amount of gold representing our legal tender notes, but not entirely the whole, but the notes are effective as instruments of business, and more than that, they are secured by express securities. We do not usually apply the words "fiat money" to paper money of that kind. The name is distinct and it is Government money, not intended to be redeemed, which has no gold or valuable security behind it, and it passes because the Government made it legal tender, it passes under a fiat.

Q. How would Sir Edmund class the great volume of credits which appear as money in the country at the present time?—A. They are not redeemable in gold. They could not possibly be redeemed in gold on account of the fact that we have not sufficient gold in existence.—A. There is no comparison. There is no reason or object why "credit" should be called "money" for the express purpose of finding a similarity between it and fiat money. "Credit" is a thing that must be met, either immediately if it takes certain forms, or at its due date, by something that is satisfactory to the recipient. Fiat money is not that. Fiat money must be taken by people whether satisfactory or not. It has no value behind it except the covenant, is not redeemable at any particular time, and passes simply because the Government says it must pass. Credit is a thing that is voluntarily extended.

Q. In that connection does not a cheque operate in the same way as money. Cheques, drafts, bills of exchange and so on, do they not function as money?—A. There is nothing more dangerous than the loose use of the word "money." Money means a great many different things. 96 per cent or thereabouts of the entire business of North America is done through the clearing houses with cheques. People usually apply the word "money" to merely the ordinary circulating medium used in the tills of merchants, or in the payment of balances.

Q. Would you think then it would be better to restrict the term to what we might call "paper money," Dominion notes and bank-notes or to metal money?—A. The word "money"?

Q. Yes.—A. Well it just depends on what you mean. It is very much better with money as it is with taxes, to say what you mean. There is such a thing as international money, there is such a thing as local money, such a thing as hard money, which means gold and silver, such a thing as soft money, which is generally applied to paper not redeemable. They are all "money," only their functions may be slightly different, and their value is different.

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Q. Probably that is sufficient on that point to get the viewpoint of Sir Edmund. In further elaboration of that idea, it has been claimed here by a number of witnesses that the banks, having control of the amount of credit extended to people, which is extended I presume on their own security, their own assets, by controlling that volume can indirectly control the price level. What is your opinion on that point?—A. It is an entirely new idea to me. I have heard more about it in the last three or four days than I ever did in my life before. Of course any person I suppose who controls credit in any large way, might by the use of it, affect prices; but as to trying to indicate that the banks are in any sense price makers, because of the fact that they handle the Government credit, I do not think there is any basis whatever for that statement. There is an effect of course on prices by the diminution of credits but that is very different from price making or price fixing.

Q. I think we are getting somewhere near the point now. You are familiar, I presume, Sir Edmund, with what is popularly known as the quantitative theory of money, that is that the volume of money, other things being equal affects the price level?—A. Yes.

Q. And are you of opinion that we should include in that volume of money everything that functions as money, cheques, paper money, drafts and so on?—A. Yes.

Q. And that indirectly it is possible through the control of the volume to affect the price level?—A. You are making that statement of course?

Q. I understood that you admitted that?—A. No, you did not ask me about the quantitative theory of money, you merely made certain statements regarding it.

Q. Then you have misunderstood me for the moment.—A. There is not any more dangerous theory, or theory more wrongly used than the theory of the quantitative value of money. Some of the very greatest economists and financiers in the world disagree altogether—men like Robert Benson—with the theory. I will only admit that the prices are affected by the quantity of money along certain angles; I won't admit even that it is one of the most important angles it is one of several of the angles, but it is not all. If you had a small community and had nothing but gold as the circulating medium in that community, confined to a few farmers, fishermen and other people, undoubtedly the quantitative theory would apply. They would compare the amount of their wheat, fish, and other products with the amount of gold in the possession of the people who had the gold. But when we look at our situation we discover that the amount of gold in the world is so slender relatively to the entire body of credit that it has no great effect. The amount of credit used through the clearing houses is a thing that is made every day by the operation of the clearing houses; it is not a fixed amount of money that stays inert and therefore affects prices up and down by the fact that it stays inert. It goes up and down caused by the operation and not of itself. Now the positive effect of money quantitatively on prices is when the money is fiat money, is legal tender money, irredeemable, and issued in a fixed quantity. It is static and the prices are not.

Q. In that connection, supposing we were using gold, and that during a certain period there should be a tremendous output of gold, as there has been at certain periods during the last century. Would that not affect the purchasing power of money?—A. The gold would affect the purchasing power? The extra quantity?

Q. The increase in the quantity.—A. The increase in the quantity of gold would affect the purchasing power doubtless, through becoming the basis of a much larger credit system throughout the world. I mean to say, if you got

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such a quantity of gold as you got from South Africa, bulked in large quantities, and the entire system of credits of the world was enlarged because that went into the banks' reserves, undoubtedly that would in time affect prices.

Q. As a matter of fact we have been operating, have we not, on the idea that there should be a certain rough proportion between the amount of gold reserves and the amount of money?—A. Yes, the amount of credit.

Q. That was put out?—A. The amount of credit put out.

Q. Is there any proportion that the banks think ought to be observed between the amount of gold or legal tender which we will suppose to be based on the gold and the amount of credits which they may extend?—A. Well, I think roughly speaking in recent years in banks in England, Canada and elsewhere about ten per cent of gold; I do not mean legal tenders that are not gold, but gold, as a basis for the total obligations of the bank.

Q. It has been pointed out here by one of the other members of the committee that between 1904 and the present time, there has been a very much larger increase in the banks' business, or that the proportionate increase in the Canadian banks' business has been very much larger than the proportionate increase in their capital?—A. Yes.

Q. Is it your opinion that the situation now is less safe than it was say in 1904?—A. Well, I don't know that I understand exactly what you are aiming at. Do you mean the margin for loss?

Q. I think, if I remember rightly the question was put to Sir John Aird somewhat in this way the other day, that in 1904 the proportion between capital and say loans or deposits was so and so. To-day it was very much larger. That is, there was a much greater increase in loans and deposits than there was in capital, and the question was put as to whether or not the position of the banks now was unsafe, or was it too safe in 1904?—A. I don't know that it was too safe in 1904, and I should not admit that it was unsafe now. There is no doubt the relation has changed. In any country that grows that is very apt to be a fact. That is an economic use after all of credit.

Q. The proportion might increase without any loss of security.—A. I don't know how far it might go. There must be some reason about its limit, but I think that all of us suffered greatly 20 or 25 years ago through too much capital, too small circulating power of our notes, and too small business relatively to our capital, and somewhere between that time and this there has been a readjustment of that.

Q. One other point in this connection, that has not been touched upon very much in our inquiry so far; and that is the stabilizing of the purchasing power of money in commodities or services. We have found I think when we look back over the last 50 or 75 years, tremendous differences in the purchasing power of the dollar. At one period the price index will be 100, at another it will run up to 150 or 200, and then drop to below 100. Obligations contracted at one time are varied by reason of the varying purchasing power or value of money. It seems to me that if there were some way of avoiding it, it would be useful. Have the banks given consideration to that?—A. I suppose all the banks have read Prof. Irving Fisher's scheme. There is no question about it that the lender of money on long terms has suffered greatly in recent years. He lends money to a farmer, say at a time when 70 cents would buy a bushel of wheat. If he lends \$700 he could at the moment he lends it get 1,000 bushels of wheat. If he gets his money back at a time when wheat is \$1.50 a bushel, he can only get 400 odd bushels. Fortunately the lender of money is in the habit of looking at his dollar as a dollar and not sweating too much over that. There is no doubt that often there is a great disadvantage in that way to the borrower or to the lender, and of late years mostly to the lender upon long term obligations.

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There is no doubt that if any plan could be made by which the dollar could be stabilized so as to have the same purchasing power over a long period of time, it would be a most desirable thing, but I have never seen any scheme that would bear strict analysis, either Mr. Irving Fisher's or that of anyone else, which would accomplish it.

Q. It would be desirable you say, but as yet no practical scheme has been advanced?—A. Yes.

Q. I was reading not long ago a book on this question by Professor Todd of Oxford, and his opinion was that we might in the near future consider the project of an international paper currency controlled by the League of Nations. What would you think of that Sir Edmund?—A. That would not help the question you have just been proposing to me.

Q. But it was in that connection that he advocated this.—A. How did he think that would help to stabilize the value of money?

Q. That it would be controlled according to the price index, to prevent fluctuations up and down.—A. It does not seem to me that it would matter whether it was international money or the money of any particular nation; the question is to fix it by this price index. I fail to see how that could be done.

Q. I thought perhaps, Sir Edmund, you might have given some consideration to that.—A. No, I have never seen any practical plan myself.

Q. There are one or two points, Mr. Chairman, about the pamphlet on Canadian banking, written by Sir Edmund Walker, to which I would like to make some reference.

On page 4 in connection with the note issue this statement is made:—

“In saying this we do not wish to be understood as asserting that banks should necessarily enjoy the right to issue notes.”

What is Sir Edmund's candid opinion in regard to the right of note issue as to its advantages or disadvantages?—A. I meant by that statement to frankly admit that the right to issue notes is a franchise given to the banks by Canada. I do not mean that we have any inherent right. As to the advantage of the Canadian banknote issue, if this were the right time to speak about it, I should like to speak at some length. I have asserted repeatedly that our bank notes are the best in the world, and I have been all my life in Canada connected with that issue and studying it. The reason I have said that is, if we compare it with just two systems for a moment. It has an advantage over the British system in having carried the cheque system much farther than it is in England, and as far as it is carried in the United States; as I have said, to the extent that 96 per cent of all transactions occur through the clearing house. It is also true that the banks of Canada have been competent to act as foreign exchange banks, and it is only in the last four or five years that the joint stock bankers of England have undertaken international transactions. If we turn to the United States, in the last forty years in these Committees the question was urged repeatedly, sometimes by the Minister of Finance and sometimes by the members, that we should imitate the national banking system of the United States, a system based upon a fixed quantity, a more or less rigid quantity of notes based upon Government bonds. The time came when in the United States they realized that the national banking system was defective. I think I addressed an audience first in 1893 on that subject, at a Congress of Finance in Chicago; but it was 20 years after that before they came to the realization that their panics were caused by the fixed nature of their note issue. The Republican party brought in a Bill known as the Aldrich Vreeland Bill to completely reform the American banking system, not to work by evolution, but by revolution, as they have always done. We have always worked by evolution out of a system which

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goes back to Scotland and to Alexander Hamilton. I was asked at Denver in 1908 to criticize the Aldrich Vreeland Bill, which I did as destructively as I could because it was in my opinion a bad system. Mr. Wilson was the other guest at Denver,—he was then the President of Princeton University—and heard the discussion. When he became President of the United States, Senator Glass' Committee was appointed to formulate the Federal Reserve Bill, and I was asked to go to Washington as their guest, and I remained there for some time. Now the object of the Federal Reserve Bank on almost every point except re-discount, was to imitate the Canadian National banking system, except in the matter of branches, to make capital flow as fluidly from one place to another, to give a system of banknotes which I shall describe in a few minutes, redeemable in the way that ours are, and to make the entire amount of reserves dynamic in the sense of being effective at great centres or one place. Now what is the point about our notes which the Federal Reserve Bank chose to imitate? They in the first place afford a perfectly enormous saving to the country, as well as to the banks, in making the till money of our branches, because the thousands of branches throughout Canada would have to charge, have to earn, the interest on their till money, their real money, by the charges they made to the general public. So that it served the public greatly in that respect.

By Mr. Good:

Q. You mean by real money if it had to be gold or silver?—A. If it had to be gold or silver or legal tender. Our notes are issued at each time to perform a particular credit function—and they may perform a second or third—but they come back at once to the clearing house or to our counter, and are dead, killed, absolutely; that is as a piece of paper they exist, but as a note they do not exist. When the Federal Reserve system was established they tried in every way to scheme out a system of banking which would be guaranteed by the Government, and not have to go through the expensive and difficult machinery of daily redemption. I tried to convince them that their system of paper money would be absolutely bad, unless it effected the redemption I have described, that it should go out in response to a demand for some credit transaction and come back when it had effected that transaction or one or two more, and die when it comes back. And it is because our notes are not fiat money, are not money secured by particular bonds and static in amount, but do go out to do a real thing, in response to a real credit demand, and do when they have effected that demand come back to be redeemed, that they are as I say the only right kind of paper money in the world. They have no other analogue that I know of except the Federal Reserve system of the United States. That is I think all I want to say on that subject. I still maintain that to be effective, paper money if not based upon gold, should be issued as a credit instrument to perform its function, or one or two other functions, and should constantly come back and be redeemed and not paid out again until another similar credit function is required. The result of that has been that when banks decline in business their circulation declines; they cannot keep it out; it has got to decline. Then when banks have failed, after several months of stress, it has almost always been found that their circulation is enormously less than it was a few months before when they were at the height of their activity.

Q. Would it be impossible to get the same advantages with a national currency so that the notes as issued by the government could go out and do the same kind of work and be retired whenever they have completed the cycle?—A. If the government were a banker and exercising the same kind of credit operations, yes, but if the note was an expression of the government's ordinary funded debt, no.

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Q. In the first few pages of this pamphlet there is a historical sketch of the development of banking in the North American Continent; I would like to refer to one or two passages in it. The first is at the top of page 6: "The poor colony, left with no regular currency, struggled for a time but in 1729 at the request of the people, card money was issued again"—the reference is on the preceding page to the use of this card money in the early days when business was expanding, and when there was no metal available. What I have in mind is this, as to whether or not that fiat money, if you call it such, that particular mechanism for facilitating exchange, did not justify its existence? Let me put the question some other way. What could these people have done if they did not do that? They could not get money if they had to go and mine gold and get the metal for use, it would have been a tremendous waste and a hardship, and my question is was it not justified by the utility which it had as a mechanism or a medium of exchange?—A. In the first place the time was too remote and the colony too obscure to have a banking system; so that they could not readily have had a paper system; but the best thing is to consider exactly why the money was issued. France was bankrupt, the Intendant had to pay his troops; nothing went out of Lower Canada except once a year when the ship went home with such furs and things as they had to ship. The Intendant cut playing cards in four pieces, wrote promises to pay in four denominations thereon, and handed them out as money, and promised to redeem them by bills of exchange on the Treasury in France the day the ship went home. The result of that was that by and by he issued more of these notes than he could draw bills on the Treasury, and he went on issuing them until finally they had practically no value, and the Government of France redeemed them at fifty cents on the dollar, and promised never under any circumstances to do it again. The poor people left in the plight you speak of, for twenty or thirty years had nothing but the coined money of several different countries, and they begged the government to again issue card money. They issued card money, and they issued it so profusely that finally they exhausted the patience of the King of France, and then the Intendant Bigot to meet the pressure printed ordinances, and when the siege of Quebec was over and the Treaty was made, the most difficult thing that England had to do with France was to settle how they were to give these poor habitants something for this paper money. It was settled at some small fraction of its face value. I think it was very natural for them to want to have it, but that was the result of having it.

Q. Following up the same idea, supposing a community with respect wholly to its internal trade should regulate the amount of such paper money that it issued without any gold backing, would it not continue to function, might it not continue to function permanently so far as their internal trade was concerned, provided it were regulated to conform to the volume of business?—A. How are you going to confine it to the internal trade? I do not see how it can be confined to the internal trade of Canada unless it were kept away below the final possibilities of internal trade; and of course I absolutely object to a currency that is not under effective daily redemption.

Q. Page 8 there is this sentence or part of a sentence: "And the people had the common delusion that there was not enough money in circulation." My question is this, were people deluded when under pressure of war, etc., they made more money, that is issued more paper or more credit?—A. No, the people are deluded under the impression there is not enough money in circulation.

Q. Is there ever a time when there is not enough money in circulation, when we would need to bring more money into circulation?—A. Under the Canadian Banking system there is never too much or too little, because it falls and rises exactly as the transactions of the country fall and rise.

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Q. You mean to say that the paper money lies in the vault, so to speak, until it is wanted?—A. Yes.

Q. And whenever wanted it goes out, and when it is finished it comes back?—A. Yes; it represents at any one time, any one day, the volume of transactions of the country.

By Mr. Ladner:

Q. I have no doubt Sir Edmund has glanced over the memorandum which is Exhibit 8 in one of the proceedings. Have you by chance read that, Sir Edmund?—A. Yes.

Q. The proposal with respect to a Federal Reserve Bank, having the features of rediscount, of open market operations and disciplinary powers, and other features set out in the proposal; what is your opinion with regard to a suggestion of that kind becoming operative in Canada in place of the Finance Act?—A. I can answer that I think. In the first place we must remember that the Finance Act of Canada was passed at the moment when Canada went off the gold basis and the British pound went off the gold basis. Previous to the war our manner of financing was not through rediscount but to value on London in anticipation of the amount of things we sent abroad; therefore I think the Finance Act should be continued at least so long as the British pound is off the gold basis and as the Canadian currency is off the gold basis. But if we had come to the moment when we knew what kind of a rediscount system we desired, I should not think that it would be the Federal Reserve system; for this reason: It is likened often to the Bank of England, but it is not at all like the Bank of England. The intention of the Federal Reserve Bank was partly based on the belief that they could create dollar acceptances in a large quantity, and could also develop a certain kind of commercial transaction which would be offered to them for discount, and that they could penalize the banker offering it by charging him a rate that would make it unprofitable to rediscount. In London you pay the bank rate, while the street rate is lower, and it therefore costs you something for this accommodation. In the United States this is not the case. The member bank pays say 5 per cent interest and is able to lend, especially in the country, at say 7 per cent. This system instead of penalizing is profitable, and in the end became one of the greatest instruments of inflation that the world has ever known; and in that respect it did not work out its original purpose.

Q. Is not the banking system of the States on a sound financial footing both as to gold reserve and—A. Yes, but the result of your allowing a country bank to go to the Federal Reserve bank and obtain money at 5 per cent which they could turn around and lend at 7 per cent caused all of them to lend a great deal more money than was wise, and brought about a collapse in the price of raw material. Therefore I should not like to see a rediscount system that would make it profitable to obtain rediscount; I think it ought to be a system that would penalize a bank for having overloaned. I may say I am expressing not merely my own opinion, but the opinion of one of the ablest American bankers, the late Mr. Hepburn, on that subject. He said, regarding that subject, several things, but he remarked that for fifty years the official rate of the Bank of England was always above the market except at moments of a quick drop in the latter and before the adjustment of the former took place. Also he said: "The British Bank pays a premium for the extra cash which it gets through rediscounting. The New York Bank makes a slight profit on the transaction." Those were what he regarded as prime faults in the American Federal Reserve system.

Q. What would be the difference between the rediscount facilities with the Bank of England and this Federal Reserve Board in the United States?—A.

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The difference is that in the Bank of England the banker who has overloaned and wants assistance in some form or another, goes to the Bank of England with his first class acceptances of international houses or of good houses, and pays a price greater than he could buy paper for on the street the same day. He is penalized for the difference between the bank rate which is higher, and has been for over fifty years, than the street rate; whereas in the United States the country bank got it at 5 per cent, and then could turn around and lend it at a profit. I am opposed to any rediscount facilities which would make it a profitable operation.

Q. Do you think that certain disciplinary powers, to put it generally, would be advantageous in the Finance Act under the operation of the Finance Department with respect to the issue of notes against securities; for example, where the banks—take the case of the Merchants Bank—where they placed in their securities and got quite a large amount of notes at a time when other banks were not carrying on that kind of transaction, indicating that something would be wrong, so I am informed by bankers?—A. Because of the few in number of our banks and the smallness of the country it might be possible for a rediscount bank or for the Treasury Department to have some knowledge, but in a country like the United States it would be practically impossible; the numbers are so great and the transactions so large. Any number of banks in the United States have been helped by the Federal Reserve system who should not have been helped from the point of view of prudence.

Q. I have to-day a telegram from the President of the British Columbia Bond Dealers' Association, in which a point is raised with respect to the bank?

The CHAIRMAN: State the substance, I know the telegram.

Mr. LADNER: Has this matter been up before the Committee?

The CHAIRMAN: No.

Mr. LADNER: If this matter has been dealt with by the Committee—

Mr. STEVENS: It has not been dealt with.

Mr. LADNER: The substance of the telegram is in connection with the banks developing a bonding department and engaging extensively in the bond business; they have private wires, and generally are competing with the bond houses; and the suggestion is made that the banks' operations in that respect should be limited. What is your view upon that question, and as to the advisability of the Committee suggesting any legislation?—A. To begin with the wires spoken of have nothing to do with the bond business. They may be incidental to that, but the wires are for our foreign exchange business, which is a very large business indeed. The selling of Government securities has been banking business as long as I have known—Government securities or municipal securities. I personally would not allow my bank to sell industrial securities, but there never was a time when the handling of public funds of that kind has not been a function of the bank.

Q. They say the banks have organized special bond departments?—A. Department is just a name for a piece of wood and a space in an office.

Q. That they are buying and selling securities and issuing printed lists of bonds for sale?—A. That is banking business in every country in the world that I know of.

Mr. LADNER: I think if I may show the witness the telegram it would be more intelligent, and it really concerns a great many people in the country.

Mr. SPENCER: Read it.

Mr. STEVENS: It is practically the same complaint as fire insurance agents are making, only it applies to the bond agents instead of insurance agents.

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Mr. LADNER: The telegram reads:

"Leon J. Ladner, M.P.,

"Parliament Bldgs., Ottawa, Ont.

"B.-C. Bond Dealers' Association passed resolution protesting against banks engaging in bond business as abuse of their powers and constitutes unfair encroachment on business of private firms considering it outside sphere of legitimate banking as contemplated by Bank Act since banks used by government to assist distribution of Victory bonds largely sold through organized efforts patriotic citizens and bond dealers the banks have extended their operations having organized special bond departments, in certain cases have installed stock exchange wires and operators have close connections with larger bond houses joining such in buying and selling securities, issuing printed lists of bonds for sale and advertise for public support. Banks having knowledge of customers' business and as custodians of public deposits liable to misuse power to further own ends and constitutes encroachment and unfair competition against private business interests their branches throughout country active buying and selling agents. Danger of banks securing too much power as monopolist of banking and bond business of country association considers banks operations should be stopped or much curtailed and under defined limitations we appeal for investigation and solicit your support.

G. R. WAGHORN,

President B.-C. Bond Dealers' Association."

WITNESS: The Banks have dealt in public funds ever since the Bank of England was established; there never has been a time when banks have not. In this country there was very little dealing in the issues of the Dominion of Canada, for instance, before the war, because all such securities were sold in London. But when the time came for raising the money for the war, issues of bonds were sold in Canada. We have established safety deposit vaults to take care of the people's securities. We have saving bank customers and people that trust their bank, who come and want to buy a government bond, and we have gone into the bond business, arising quite in a natural way. I would say this is entirely a question of discretion on the part of the bank. We would not in our bank sell industrial bonds. We will sell Dominion bonds and provincial bonds and municipal securities, and we think that has always been a function of a bank. I do not think the bond dealers have any more right in that respect than we have.

By Mr. Cahill:

Q. Did I understand Sir Edmund to say that the Bank of England acts more as a brake on inflation than to encourage inflation?—A. Yes.

Q. And the American system has a tendency rather to increase inflation or encourage inflation than to act as a brake on it?—A. Yes.

Q. Was that the intention of the Federal Reserve Bank?—A. No, I think it was not, and I am perfectly sure they will act with much greater prudence hereafter. It was a vast experiment. On account of the war they had to finance for their own government tremendously. Let me illustrate the difference between Canada and the United States in that respect. When the war was over the banks of Canada with the bond dealers had placed all our bond issues in the hands of real investors; in the United States the banks were still holding for themselves or their customers four billion dollars' worth of issues of the United States. The Federal Reserve system was thrown out of gear to a great degree by the fact that they had to finance the war and lend these people

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money at a favoured rate. I say no system should exist that does not punish the banks slightly for rediscounting. Just in the same way I am one of those who urged that for the privilege allowed of issuing notes against security under the Finance Act we should pay 5 per cent to the government for it; there should not be any favour.

By Mr. Woodsworth:

Q. In the Financial Post, February 9th, I notice a report of an address by Sir Edmund Walker, in which he says "we cannot pretend that we did not know that because of war debts we must, for a generation or more, work harder for longer hours and with more intense application, not only because of the vast debts, but because we had lost the labour of those who fell in order that we should live." I should like to ask him if there is vastly increased production. Where under the circumstances that exist to-day, if we find the markets, has this increased production solved our present financial troubles?—A. There is one thing quite certain, we cannot, or ought not, to increase our production beyond our point of sale. In Japan; in China; in Australia; in New Zealand; in South Africa; in the West Indies, all over the world there are places where we can sell Canadian produce if we were an economical people and gave sufficient skill to manufacture. There is no difficulty about selling if we make it in the right quality and price, but that lesson, I am sorry to say, has not been followed by the world yet. I still say we have to work harder for a generation, have to be more economical, and that the debt created by the war has to be some day paid.

Q. In the same address Sir Edmund says "we are lucky among the nations who created war debts in owing ours mostly to ourselves." I take it that this harder work and longer hours and more intense application, would be simply that we should transfer certain monies gained from production from one class in the community to another class?—A. They are not classes. There are servant maids with \$50 bonds and widows with \$100 bonds. They are all kinds of people.

Q. Transferred from certain individuals to other individuals within the country? I would like to ask if Sir Edmund is in agreement with the General Manager of the Bank of Montreal, a little over a year ago, when he says, speaking of high prices, that unemployment is a natural corrective to high prices?—A. Unemployment is the natural result following high prices. I would not like to say it was a corrective of anything.

Q. In the general statement of the Canadian Bank of Commerce I notice this statement, that each local bank must be prepared to redeem in gold and legal tenders from three-quarters of a million to a million and a half dollars at any time on demand. Might I ask whether the banks are to-day prepared to redeem in gold, or exclusively at the present time in legal tender?—A. Exclusively in legal tender.

Q. On the question of audit, there are one or two questions I should like to have more clearly before me. What constitutes an audit under the Act?—A. Well, I think that is a question which you had better ask, if you have an opportunity, some of the auditors, because there is not any system of rules or regulations for the audit of a bank, so far as I know. I only know that the audit of our own bank is carried on by two firms, although the law only requires one at the present time; that they visit offices like ours at London, or Mexico, without any notice whatever, that they examine most thoroughly everything they find there. Having jumped into the bank and made an audit in different places, they finally make an audit at home, in which they go through our books most thoroughly and most completely—but I could not tell you

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whether the system of other auditors is like theirs, or whether their audits are made as thoroughly. There is no such thing as an absolute audit of every account in the bank. That is not possible in my mind, and I think it is fair to say that I personally fought against having any external audit for two revisions of the Bank Act, because I was sure it would produce the effect it produced in the case of the Merchants Bank.

Q. Just on that point, is the audit confined to the point set out in the statement, as required to be certified by the auditors?—A. You mean the verification of the particular features in the statement?

Q. Is it confined to that?—A. As I mentioned just now, the auditors, the representatives of the two auditors, may come into our London Office in England, or our Mexico office or a Pacific Coast office, anywhere at any moment, and they find the books making a declaration of certain relations between that branch and the Head Office. They stay there until they have proved that those figures are correct, that is that they have found all the assets the books of that branch claim to own, and they verify from the Head Office that the relations between the two are correct, and at a later time they come and take the matter up with the Head Office. At the Head Office it is not possible for them to begin to go over the particular affairs in detail of the five hundred branches, but they test out the branches, test them from the Head Office of the bank at a later time. It takes fifty competent highly trained men, from the chief inspector down to the youngest assistant auditor and many clerks working every day of the year, to make the audit of the Bank of Commerce that we desire for ourselves. I want you to consider how far you think it is feasible for any audit to be made by an outside firm, with fifty men working every day in the year, to tell the Bank of Commerce that their affairs are right. No external audit can be anything but more or less perfunctory. At two revisions of the Bank Act I fought steadily against it.

Q. In reading this statement, there are several points on which I would like certain information. With regard to loans to directors, to which reference is made on page 15, first, are the directors large shareholders in the banks?—A. Not in the case of my own bank. I think it would be interesting to tell you how the stock of the Bank of Commerce is held. There are 2,814 shareholders who have ten shares or less; 1,703 shareholders who have 11 to 25 shares. There are 6,000 out of 7,263 shareholders who own less than 25 shares. I know of no large holder. It is largely a case of community interest, as far as anything could be, and none of our directors that I know of are very large holders. In the smallest bank they have to own \$3,000. They may own \$3,000 or \$4,000 or \$5,000 or \$6,000, or they may own \$10,000. No shareholder in my memory has ever had so many shares that he could in any sense dominate the rest of the Board because he was a large shareholder, and that is one of the features in which Canadian banking is better than American banking.

Q. The amounts loaned to a director bear no relationship to the amount of his holding?—A. No.

Q. Is there not a danger that the directors may be able to throw out large blocks of credit in one direction that may not be of advantage to the public at large?—A. I can only say that has never occurred in my own bank. Every credit granted to a director is handled absolutely the same as one granted to anybody else.

Q. The amounts that can be loaned to the officers are limited. Would it be feasible to limit by the Bank Act the amounts that may be loaned to any one director, or a company largely dominated by any one director?—A. There is no analogy because the officer is not in business and should not under any circumstances have large financial requirements. Your director might be one of the largest business men in Canada. Very often he may be the best cus-

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tomers of the bank. You would be practically saying that every business man in Canada must not go on a Board, or else, "If I go on the Board of a bank I must not do my business there, I must do my business elsewhere." Director's loans are often the very best loans you have. It is of course possible to abuse those conditions.

Q. Are the savings bank deposits necessary for the conduct of a commercial bank? It was stated the other day a bank could get along very well without such deposits.—A. I treat that as one of the most distinctive features of banking in Canada, that we have mobilized the interest bearing savings of the people in Canada for commercial business. There are often occasions when a borrower complained of that. We do treasure greatly the small savings of the people, which stay with us for a longer time and are more reliable than other deposits. If you like I can give you an analysis of the size of the deposits. I have it here.

Q. It is stated on page 26 "the money lent by one of the larger banks comes from its deposits, its share capital and rest fund, and its note issue, in the proportion of 86 cents from deposits, eight cents from shareholders' funds, and six cents from note issue, for each dollar lent." What is meant by that?—A. It is both free deposits and interest-bearing deposits. It is deposits as a whole.

Q. It is not limited in any sense to interest-bearing deposits?—A. 86 per cent comes from the deposits as a whole, either free or interest-bearing.

Q. Can you tell me what proportion of the 86 cents would be interest-bearing deposits?—A. Give me the last statement of the bank and I will tell you. Those happen to be our own figures.

By Mr. Stevens:

A. Here is the statement of February.—A. I have it here. This is last November, and that will do very well. Out of \$329,000,000 of deposits, \$248,000,000 bore interest, and \$80,000,000 were free.

Q. A question has often been raised with regard to the public generally—if bank notes are destroyed inadvertently by fire or loss, who is the beneficiary?—A. The Government. The people of Canada.

Q. In what way?—A. If the bank were to be wound up—when I say the people of Canada, that is not true—if the bank ever failed. If the bank fails the liquidator of the bank must deposit with the Finance Minister the amount of unredeemed notes.

Q. If the bank does not fail?—A. The notes are simply a part of its outstanding circulation. It remains forever as an obligation which they must pay if they ever wind up. You could not dissolve a bank and wind it up and pay out the results to the shareholders and to the different creditors without paying the Finance Minister the total amount of unredeemed notes, to be in his hands forever.

Q. In the meantime the bank has the use of the money?—A. Yes.

Q. There is one other question, I think Mr. Chairman, that possibly I should have asked the Finance Minister, but what securities are in practice acceptable to the Treasury. What securities are turned over by the banks? What is the nature of these securities?—A. The Government's own bonds; bonds guaranteed by the Government; first-class provincial and municipal securities; paper for the movement of grain; for the movement of meats. I do not think much beyond that. The main point is that they shall be securities as easily saleable on the market, or quickly liquidable. It is not the intention that they should be on ordinary notes of hand.

[Sir Edmund Walker.]

By the Chairman:

Q. Securities that can be realized on very quickly.—A. That is the idea.
The CHAIRMAN: Mr. Woodsworth, you have another question.

By Mr. Woodsworth:

Q. I have an amendment asking that the charters be granted or suggesting that they be granted for five years only. What is the objection of the banks to that? I notice here a suggestion that the charter should be extended to twenty years?—A. There is no country in the world where the Bank Act is revised every ten years, except Canada. The Bank Act is revised every ten years, because the banks at a time when the Government was willing to give them a longer charter, preferred to meet the Committee, as we are meeting them to-day every ten years. In some countries the charter is for twenty or fifty years or indefinite, and I suggest that making a revision every five years would be pretty agonizing business for the bank, and would serve no good purpose whatever. In 1870 we framed the Bank Act and we felt we did not know everything that was to be learned about the Act, and we made it ten years. At every revision we have improved it somewhat, and it is a piece of evolution of which we are very proud, because it dates back to Alexander Hamilton, of the United States, and to the Scotch Banking System. Every five years would be an intolerable system, and I think it would serve no good purpose. We have now the shortest period of peace of any banking system in the world.

Q. One other question which suggests itself from that. Sir Edmund points out what he regards as the danger of mixing land banking with commercial banking. A good many of the farmers feel that the present Bank Act does not meet the needs of agriculture to-day. I would think that possibly this might in itself reveal one of the reasons for not extending the Act for ten years from now. If the credit provided by the banks is not sufficient to carry on the agricultural operations of this country and the banks refuse to extend their operations to meet this need, it would seem to me that it is highly desirable that there should not be granted charters to banks giving them the monopoly of the credit issuing when it is not meeting the needs apparently of all sections of the community?—A. What I referred to is of course the powers of the bank and the distinction of the two kinds of banking. As early as the first charter of Alexander Hamilton it was decided that it was not safe in North America for a commercial bank to lend money on land. That is the law, and that is what we all believe to be sound banking. I am not willing to admit that in not lending money on land we do not perform full service for the farmers of this country, and I will also say this that if there has to be some intermediate service between what the banks afford to the farmers at the present time and the ordinary land bank, something like what is suggested in the United States, it would have to be by another kind of bank altogether from the commercial bank, or the mortgage company which is a land bank. The Bank Act has nothing to do with that. If you are going to bring forward some system to-day, such as is suggested by these land banks in the United States, I should think we had better wait and see how they work out, and in any case it will not have anything to do with the Bank Act. It will be another kind of institution altogether from either the commercial bank, which can lend farmers money upon cattle, grain and so on, or a land bank, which lends money on mortgages.

By Mr. Marler:

Q. Mr. Chairman, I was interested in hearing the witness explain the interior audit—I think I am right in calling it that Sir Edmund—of the Canadian Bank

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of Commerce. You stated that there are fifty or more men engaged in this audit day in and day out throughout the year; I think you have also stated that on two previous occasions as regards the revising of the Act you were not in favour of an exterior audit. I think that is probably the correct term also?—A. Yes.

Q. As you are very well aware there are some very important amendments in the Act this year. I will ask you to look at subsection 6 of section 56. You will note that no person shall be appointed for more than three years in succession to audit the affairs of any one bank, and so on. It occurs to me that an auditor acting for three years would probably not in that time have had an opportunity of learning all the affairs of a particular bank, and his usefulness perhaps would not start until after or about the end of a three-year period. Could you enlighten the Committee or give your views on that point?—A. Yes. I should say it goes without saying that the auditor of a bank will, every year that he is performing the audit, be more and more in touch with the business of that bank, especially the way that particular accounts that may have given the bank concern are working out; the atmosphere of the bank; the way its officers look at its credits, and to destroy his services at the end of three years would in my opinion be a most foolish thing and serve no purpose that I can think of.

In other words you would say that that period of time is far too short?—A. Far too short, if there should be a period at all. I am not sure that there should be any period.

Q. You think he should be allowed to act as long as he is satisfactory, and his trust is correctly administered?—A. Yes. I think a good provision in the new Act is two auditors instead of one. That is a great improvement in this Act over the previous Act.

Q. Will you be kind enough to look at Subsection 16 on page 26, of the same section 56. You will see by that subsection:

“No auditor and no member of any firm of auditors, shall be eligible for appointment as auditor of a bank hereunder if he or any member of his firm while acting as auditor of a bank accepts any retainer or undertakes any employment on behalf of or at the instance of such bank, or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder.”

In other words it prohibits auditors from doing outside work for a bank. What is your opinion of that?—A. I have heard some firms of auditors, not the auditors of the Bank of Commerce, but great firms, say that under that section they would not act as auditors for a bank at all, because it really would not pay them. More than that it must be quite evident that the auditor of your bank must often be the person who should audit the affairs of some customer or of something dependent upon the bank. If the bank owns a realty company, if the bank has a large customer whose affairs need a great deal of consideration, it is surely wisest that the auditor who audits the bank should have the advantage of satisfying himself as well as the bank by making the subordinate audits. So that I think would defeat any good purpose.

Q. In other words, I think I am right in drawing this conclusion, that with that section in the Act the usefulness of an auditor is very largely defeated?—A. Yes I should think so.

By Mr. Carmichael:

Q. I have just a couple of questions to ask Sir Edmund. First, what constitutes the \$15,000,000 reserve of the Bank of Commerce?—A. Accumulated profits, partly; and partly premiums paid on stock issued to our shareholders.

[Sir Edmund Walker.]

Q. Are those reserves invested in any way so that they are interest-bearing?—A. They are not reserves in that sense. They are not invested in any different way from the other assets of the bank.

Q. For instance, if one of your shareholders had property would that be called reserves in the sense that this \$15,000,000 is made up?—A. I do not understand your question.

Q. If one of your shareholders had property, say a farm, would that constitute a part of the reserves?—A. No, it would not have anything to do with us, the fact that one of our shareholders owned a farm. We have \$15,000,000 of capital originally paid in in money. By selling part of that \$15,000,000 of capital at a premium, at its book value, to the shareholders of record at the moment, and by profits saved, we have accumulated another \$15,000,000 so that our capital really is \$30,000,000, although the shares issued are only 15 million; and that is a part of the general assets of the bank. It is not in any one particular place; the gold and legal tenders, and the notes of hand, and the bank premises, and all the different assets help to form that 30 million.

Q. On deposits you pay three per cent interest, and for loans you charge generally speaking to agriculturists eight per cent and quite often nine per cent. Is it necessary to have the spread from three per cent to nine per cent in order to successfully carry on the banking business?—A. Of course the spread from three to nine per cent is on a very small proportion of the bank's business. Where it is nine per cent or ten per cent or any of these high rates, there are two or three reasons. One reason is the small amount of business done in that place, and the large amount of the overhead relatively to that business, because the expense of carrying on the banking business has to come out of that margin. The other is that the business itself may be more risky in character. The losses may be greater than on money loaned at six per cent in the great mercantile centres. The bank out of that apparently large margin has to make the enormous cost of carrying on the bank. In our case, six or seven millions of salaries; between one and two million of taxes; the rental of five hundred different buildings; all that has to be met out of the supposedly wide difference; it is a difference as a rule between three and six per cent rather than the difference between three and nine, although there are loans of nine per cent of course in the West.

By Mr. Morin:

Q. Are there some losses to take care of?—A. Yes.

By Mr. Carmichael:

Q. I think evidence was given by Sir John Aird to the effect that a large part of the loans were made around eight per cent, so that the spread would be from three to eight.—A. No, I don't think he said a large part of the loans. He said we had large loans and a large part of the loans to farmers were made at eight per cent but not a large part of the bank's loans.

Q. Possibly he was referring more particularly to the West. Is it not possible considering the condition especially that Western agriculture is in at the present time, and the financial strain that is on the people, for the banks to have a system of reciprocity amongst themselves so that instead of in a small town like High River in Alberta, a town of 1,200 population, we have five banks, and in the town of Weyburn with 3,500 we have six banks, for the banks to so arrange their business among themselves that in High River two banks would carry on the business presumably and in Weyburn possibly three, thereby cutting down the overhead by half or more, and giving the advantage that would accrue in the way of interest charges to the people loaning the money?—A. There is a great deal of truth in what you say. Of course unfortunately

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four or five years ago everyone in the West was pleased beyond everything when we opened these offices. There was nothing but credit in every direction for opening new offices and giving you such extensive competition. Times have changed and things are not anything like as happy as they were. If combines were possible and if banks could come together and make arrangements, I have no doubt any number of these offices would be swopped off one against the other and be closed up. I can imagine conditions under which no one would be so restive and unkind in their criticisms as the Western people if we did shut up these offices. There is no doubt there are too many offices in the West and that it does make an expense to the community, but it is part of the whole inflation that the West has gone through and it is not any different from the farmer who has bought an extra section or half section of land, doubled his land and then found that he has not capital enough to put cattle on it. He would like to reverse that operation and we would like to reverse some of ours, but we were enthusiastic about the West along with the farmers, without a doubt.

Q. I don't think we will criticize as long as there is enough banks to do the business, if the number is cut down.—A. I think that will happen gradually within the next two or three years, that they will be cut down.

Q. If the maximum rate of interest chargeable by the banks were reduced and the banks given the privilege of reducing the rates paid on deposits, would that be an advantage that might accrue to agriculture? Supposing the deposits drew two per cent and bank loans seven per cent, the spread would still be five and I suppose the results to the bank would be practically the same, and the result to agriculture be great indeed?—A. I should think that the loss of our deposits would be the result to the bank.

Q. You think that would not be practicable?—A. The justification for our three per cent is its steadiness. We pay it when we cannot or when we can lend the money. There are times when the depositor feels very bitterly that we do not give him more than we do, because money is worth more. Our answer is that when money is not worth more, when we have millions that we cannot lend, as has happened several times in the last 20 years, we do not ask you to take it away but we still keep your money and still pay your three per cent.

Q. What is the principle followed by a bank, when a farmer takes out a loan at eight per cent, and while the loan is current eight per cent is all he is charged, but when his loan runs over to a succeeding year he is required to pay nine per cent—on what principle does the bank treat that? As soon as a man is down so to speak, the rate is increased and he is required to pay more.—A. I should say the loan has become a bad loan, it has become an unsatisfactory loan by the mere fact that he could not pay it off.

Q. That might be the case with an individual farmer, but in the case of a corporation the same principle is used. Where a corporation is paying say seven per cent, on a current loan, and then it runs over to the succeeding year, they are required to pay a higher rate of interest.—A. Do you mean a municipal corporation?

Q. Yes.—A. All loans that run a long distance like that are not good transactions for a bank whose deposits are exigible on demand. Usually loans that drag like that are penalized by a higher rate. There is nothing unnatural about that. You must remember that the overwhelming bulk of our business is loaned for one year and paid off in the year, so that you see the bottom. Almost the whole Western business has not that quality at the present time; it is almost all more or less frozen and dragging.

Q. In your opinion, if the bank rate were set at a maximum of seven per cent what would be the effect on the bank dividends?—A. Of course, as far as bank dividends are concerned it would cut the dividends all to pieces, but that would not be the final effect. It would close up the bulk of the Western offices. What the general manager of the Weyburn bank said is quite true, the profit is after seven per cent as far as Western loans are concerned.

Q. It would close up the bulk of the Western offices?—A. Yes, the seven per cent rate.

Q. That is what we would like to see, little reciprocity close some and leave some open.

By Mr. Stevens:

Q. I have just a few questions I would like to ask. The statement I am referring to is dated February, which is characteristic I think of most of the bank statements. I wish to ask you Sir Edmund to give a clear, frank expression, as you have so kindly done, in most instances, to the necessity for loaning on call loan, elsewhere than in Canada the sum of \$181,000,000, and other loans, \$165,000,000 or a total of \$347,000,000; the necessity for that and also at the same time would you not consider that the withdrawal of part of that call loan for instance and its use in Canada at this time might have a beneficial effect on Canadian business?—A. I think you did not quote the deposits in foreign countries.

Q. No I did not. The deposits I might say are \$325,000,000. The loans are \$347,000,000.—A. So that there is \$20,000,000 we have to deal with. A very small reserve surely for the Canadian business.

Q. The reason I asked that question is this. Frankly it has been a criticism in my mind, and I know it is in the minds of a great many others that perhaps the Canadian bankers might bring, for the present rather stringent period, some of this money back to Canada, and I think it would be well for the bankers to make a frank statement on the subject.—A. In the first place it is not a stringent period in that sense. The banks of Canada have plenty of money to lend; it is the quality of the security and the condition of business, and the volume of it that is the difficulty. Money is not stringent. So far as the question of carrying our reserves in New York is concerned, the practice is older than Confederation, it goes back to the sixties, when there used to be bitter complaints in Ontario that the Bank of Montreal would lend its money in New York but would not lend to the Ontario farmers and merchants. It has come up regularly and been answered just as regularly over and over again. Canada has been saved almost every time when there has been a serious panic in the United States by our ability to withdraw from New York our balances there to serve our people at home. Saved in '93, saved in '97, saved many, many times. The amount in New York must be added to the cash reserves in Canada, and then you must consider whether those reserves as a whole are too much for the volume of business. But when we have times like the present, it is not that the banks have money to lend, it is that the people have not the transactions to offer to the bank that are suitable for good loans.

Q. Have you considered sub-clause 5 of clause 113 regarding the definition of current loans. It is a new clause and there has been some discussion of this, and I would like to have your view of it. I might read it. It is:

“For the purpose of any return provided for or required under the last preceding section, or for the purposes of any statement or balance sheet prepared and issued by a bank, there shall not be included amongst ‘current loans’, any loan in respect of which,”

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and then you have it under your hand and you will see the connection.—A. To begin with, in my humble opinion, the word “current” should not appear opposite any loan nor should we have any item of over-due debts. We should have the assurance that all losses had been amply provided for which is a very much stronger thing than these suggestions. But to say that a loan on which the borrower has not for a period of twelve months preceding the date of such return, paid the interest at the rate agreed, in cash, would simply put almost all of our loans in the West, or an enormous proportion of them, in the category of past due bills at once; a most unjust thing, many of the loans being perfectly good. The same way with the lumbermen. Supposing a lumberman goes into the woods to conduct an operation that takes two years before he has brought his logs out, sawed them up, and sold them to the public; how is he to pay interest in cash during that period? The security is perfectly good; you take his cheque for the interest, add it to his loan, and wait for the time when he sells his product. I think it is an impracticable clause and does not help us at all to determine whether assets are good or not, which is after all the main purpose of the bank’s statement.

Q. What would be the effect upon the business man who borrows?—A. We would have to press him to pay unduly, if the effect of his being unable to pay interest in cash was that his loan was thrown into the overdue debts column.

Q. Would it curtail credits?—A. Yes, enormously; indeed I do not see how it could be applied to a very large part of the western business. Three or four years ago nobody paid better than the farmers of the west. At the present time an immense proportion need indulgence, and to ask them to pay in cash the interest on a loan when they cannot pay the principal—how is anyone going to say it can be accomplished? Yet the loan might be very good.

Q. In regard to clause 86, we have had two witnesses who made I thought some very sound and earnest representations to the Committee asking them to apply the registration principle of clause 88a to the loans on warehouse receipts and bills of lading, etc, in clause 86. Would you give the Committee the bankers’ view of that application?—A. The late Mr. Lash and myself framed section 88.

Q. Not 88a?—A. 88 in the old Act.

Q. There is a new clause added this year, 88a, providing for registration. What is your view of the application of the principle of registration to clause 86 which is asked by the representatives?—A. Clause 86 is the old 88?

Q. No?—A. We should not register warehouse receipts and bills of lading.

Q. Did you read their request and the evidence of the two gentlemen representing the British firms?—A. I read it, but I thought of it more in connection with section 88. The power of lending upon warehouse receipts and bills of lading is enjoyed in England and in every country in the world, and is one of the commonest forms of banking. No one has ever suggested they should be registered, but section 88 is a wider section.

Q. It was with regard to 86?

The CHAIRMAN: Do you want his views about 88a?

Mr. STEVENS: Yes.

The WITNESS: Referring to 88, in the early days in this country where the lumberman and the mover of any kind of our early products needed help from the bank, he had capital very small indeed in proportion to his requirements. He could himself be a bailee. He could issue a warehouse receipt himself. There were several different things on which you could take a lien for a bank, but it was illogical, and did not go far enough. We framed section 88 in order that the manufacturer in Canada or the man who was taking out a raw product of any kind or was moving wheat to the market, particularly wheat to a

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flour mill, could borrow from the bank without endorsers or anything of that kind, by pledging the material to the bank. It was based upon the idea that in the overwhelming bulk of the cases cash is paid for the raw material, and cash is paid for the labour, and no injustice could be done to anyone in cases of that sort. No doubt there are individual cases here and there where the thing, that is raw material for one form of manufacture is a finished article by itself, such as cloth for a wholesale clothing concern, and therefore it is possible under section 88 that someone may sell an article on time to a manufacturer as the raw material for what he is going to do with it, and that manufacturer may pledge it to a bank. But the question is are we going, for an occasional instance of loss on the part of the creditor who has not known banking conditions in this country and who should have known them, to put in peril a system which covers a perfectly enormous proportion of the loans of our banks, where, for instance, a flour miller who may want to borrow three or four or five or six hundred thousand dollars for working his flour mill in order to put in his wheat, and where we are absolutely secured as long as we have section 88 and also know he has to pay cash for his wheat and wages—are you going to put in peril a system we have used effectively and are very proud of, because some merchants in England have not known our Act and have lost by giving credit to people for goods that afterwards turns up in a pledge of that sort? I submit that all the instances that can be brought together as misuse of 88 would be as nothing alongside the benefit of every kind it has been to every manufacturer in Canada.

By the Chairman:

Q. Do you see any objection to registration?—A. I know that many of our customers will refuse to give it, under section 88, if it is to be registered, but at the same time if it is to be registered I personally have no complaint.

By Mr. Stevens:

Q. Do you consider the banks have taken sufficient precaution to see that the cash was paid out for what it was intended for, like the purchase of wheat or the purchase of the raw material or the payment of wages—I do not say the bank should be responsible, but I infer it is understood that that is the use to which the money would be put?—A. Yes.

Q. If it is put to that use no harm is done?—A. No.

Q. Do the banks take precautions when loaning to the customer under section 88 to see that such use is made of the money?—A. I can say for our own bank that we require a customer of that kind to keep only one bank account and keep it with us, and it is a practice to go over his cheques and see what is being paid for. We survey his business as closely as we can, but it would be impossible to literally do as you say; and because things have happened where undue advantage has come to a bank from that section, that is no reason for doing away with the section, which does service to a hundred borrowers for one case in which it may do harm to some merchant in another country.

By Mr. Marler:

Q. It has been suggested, in fact I believe an amendment has been brought forward to section 88 that the unpaid vendor shall preserve a prior lien. How would that affect the situation as regards the banks?—A. It would be impossible as far as the banks are concerned; they would not lend the money.

Q. In other words it would absolutely defeat the purpose of section 88?—A. Absolutely.

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By Mr. Mitchell:

Q. The other day before the committee there was a certain discussion as regards new provisions in the Bill covering appropriation and contingent accounts; would you like to give the committee your views on that?—A. My own view is that the four or five or six items of assets, such as stocks and bonds and securities of that kind owned by the bank, call loans upon stocks and securities, bills discounted in Canada, bills discounted in foreign countries, after each one of those items there should be every month an explicit statement that ample provision has been made for all bad and doubtful debts; that you should not use the term “current” and not use the term “past due bills,” and you will then have no occasion to mention a contingent account. To mention contingent account is a most unfair and most unwise thing. A well administered bank will in the first place make meticulous provision for every item of badness that it can see from the tiniest note to the largest, and write off that part which is bad. But when it has done that it has left a vast amount of notes, a hundred million dollars, —in our own case over two hundred million dollars of notes in which it knows perfectly well, although it cannot see any bad debt, the bad debt is inherent—one hundred million dollars of the best debts in the world could not all be collected. It estimates what that contingency should be and takes it off the item when it presents it to the public. But to put items in in that way as if they were good when we know there is inherent loss, would make it extremely difficult for a bank, and sharp discussions in good times would arise on the part of the shareholders as to whether you were ever going to lose that money. We feel that we should have that percentage set against the entire loans of the bank as a thing that we know sooner or later we will have to use to some extent, and we should not have to expose that to the public or the shareholders. It should be taken off the item every month as though it were already lost.

Q. Is the publication of overdue debts required in any other country in the world?—A. No, in no other country in the world.

By Mr. Marler:

Q. Would you be kind enough to look at page 74 of the Act, section 153? You will note the proposed amendments to the Act are printed in italics. The point I particularly desire to ask a question about is this section 153, which states “Every President, Vice-President, Director, Auditor, General Manager, or other officer of the bank, or trustee, who knowingly prepares, signs, approves or concurs in any account, statement, return, report or document respecting the affairs of the bank containing any false or deceptive statement, and every person who with intent to deceive or mislead any person, uses any false or deceptive statement in any account, statement, return, report or document respecting the affairs of the bank shall be guilty of an indictable offence”—the words printed in italics in that section—then further on in subsection 3 of the same section, also a new section: “Every President, Vice-President, Director, Auditor, General Manager, or other officer of the bank who knowingly prepares, signs, approves or concurs in any return respecting the affairs of the bank provided for or required by section 112 of this Act;” then if you would be kind enough to turn back to section 112: “The bank shall, within the first twenty-eight days of each month, transmit or deliver to the Minister a return in the form set forth in schedule G to this Act.” Schedule G appears on page 81 of the printed Act. You will note that schedule G is a more or less very complicated statement which might very easily have contained in it when returned errors or omissions which perhaps it would be quite impossible for the President and Vice-President to know of. What will be the effect of this new legislation on the officers and directors of a bank?—A. I think that not only the

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Presidents, but the General Managers feel that they practically could not sign any statement with the Act in that form. The Act should be so worded that it will punish knowledge and punish defection from duty, but to say, as President of the bank for instance, I am to go to prison if any error of that kind whatever develops in that statement, important or unimportant, fraudulent or not fraudulent, no matter what it is, that defeats its own purpose. The section as I think ought to be drawn so that the weight will fall upon guilty knowledge, and it should be one that does not presuppose guilt. This somewhere I think says we shall be deemed to have the knowledge, whether we have it or not; not *prima facie* to have it, but deemed to have it. Of course we have a most elaborate system of preparing the government return from the bank. I know it is right by the fact that it has to pass through a great many honourable officers and goes through a great deal of examination. But how could it be possible for me to go back over all these items personally to know that every item is correct; and yet under this I am deemed to know it, and go to jail if it is wrong. We should only punish guilty knowledge.

Q. Do you think that the officers of the bank, of the various large banks we have now, the General Managers, the men of great experience, men of trust, will continue to act if this section was made into law as it is now in the Act?

—A. I do not think they could. I know I have heard a great many bank presidents and general managers say it is simply impossible to sign a statement in which you declare you know things which in the nature of things you cannot know; guilt is the thing to be punished.

Q. Would I be right in saying this, that the proposed amendment to the Act is an attempt to legislate honesty into the law?—A. I think that is a pretty good description of what it tries to do.

The Committee adjourned until 11 a.m. Friday, April 27, 1923.

FRIDAY, April 27, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: I have a statement which I prepared some time ago, and I do not think I had it put into the record. I cannot recall doing so, and if the members of the Committee desire it to be printed it shall be done. It is a statement showing by provinces the number of branch agencies and sub-agencies of the chartered banks as of February 28, 1923; that is it shows the number of agencies of each chartered bank of Canada in each province of Canada. If the Committee desire that to be printed I will hand it in. It is a statement prepared by the Department of Finance.

Several Honourable MEMBERS: Yes.

(See Exhibit No. 14, page 101.)

Sir EDMUND WALKER, Examination continued.

Mr. CARMICHAEL: Before the evidence of Sir Edmund is proceeded with, might I ask a question of the Minister of Finance in connection with section 88-a? Section 88-a provides for the registration of moneys advanced by a bank under section 88. Now would that apply to subsection 8 under section 88 where a bank may lend money to the owner, tenant or occupier of land for the purchase of seed grain—would the provisions of 88-a apply to the subsection?

[Sir Edmund Walker.]

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Hon. Mr. FIELDING: I am inclined to think it applies to all commodities where the lien is given. I will reserve my judgment in the matter till I look into it more carefully. The intention was to require notice to be given of all prior liens under section 88.

Mr. CARMICHAEL: It has been brought to my notice that the registration should be under subsection 8 of section 88 by the banks, but not with the Receiver-General, rather with the clerk of the District Court. Under seed grain advances made at present by municipalities, registration is required to be made within 30 days in the office of the Clerk of the Court, and it has been pointed out to me that the same provisions should apply to the banks.

Hon. Mr. FIELDING: We will look into that, though I don't think it will be intended to go as far as you suggest.

The CHAIRMAN: I think it must be registered just with the Receiver-General.

Mr. CARMICHAEL: That is the point. It is not very useful, especially in the province of Saskatchewan. I believe there is only one Assistant Receiver-General in Saskatchewan, while there are sixteen or seventeen District Courts, and it would be much more convenient—

Hon. Mr. FIELDING: There is only one Assistant Receiver-General in any province, and my honourable friend's argument if well founded would apply to every province in Canada.

Mr. CARMICHAEL: That is why it would not be convenient.

The CHAIRMAN: Sir Edmund Walker is available for examination by any members of the Committee.

By Mr. Shaw:

Q. If I might be permitted I would like to ask you a few questions. I gathered from your observations yesterday that under your system each separate branch of your bank is a separate unit accounting strictly to your head office. Did I understand you correctly?—A. No, I do not remember making any statement of that kind. Our bank is divided into geographical sections, each under the charge of a superintendent, and while each branch is a unit, it would respond to and correspond with the superintendent of that geographical section.

Q. In your system are these individual banks charged a certain rate of interest for the money which they secure?—A. Do you mean branches?

Q. Yes.—A. No; the head office makes a calculation of their profits and bases it on some rate, but the branch is not so charged.

Q. I find that in the year 1890 there were some thirty-eight banks in Canada, in 1900 there were thirty-six, in 1913 twenty-four, 1923 there are only seventeen; will you agree that there is a definite trend towards centralization?—A. There is a definite trend towards lessening the number of banks and increasing the number of branch units, both here and in England.

Q. Do you consider that such centralization of the money power of the country in the hands of a decreasing number is desirable?—A. I think I would answer that by saying that what are called the Big Five in England take care of the business of Great Britain both at home and abroad far better than any other banks they had before.

Q. Would you make the same observation with regard to Canada?—A. If the banks were as well and as ably administered it depends on that.

Q. What effect, if any, does such a monopolistic tendency have with industry?—A. I do not think it is monopolistic; I think it increases competition among the banks, which is good for the public.

[Sir Edmund Walker.]

Q. Do you remember in 1893 that definite charges of Canadian banks having a monopolistic tendency were made even as far back as 1893?—A. I never remember a time when they were not made.

Q. Of course there is much more justification for it being made to-day than there would be in 1893?—A. I should not think there was.

Q. You think not?—A. No.

Q. The banks in Canada have several important privileges; I think you will agree that perhaps one of the most important is the note issue?—A. Only one privilege that I know of, that is the note issue.

Q. Do you know any other part of the British Empire where a similar privilege is accorded to private banks?—A. I fancy in South Africa that there are such privileges.

Q. I had understood that New Zealand was the only place in the Empire that a similar privilege was accorded?—A. I was going to mention New Zealand, too, but I think the Standard Bank of South Africa has the issue privilege; Australia had it at one time.

Q. What value is the note issue to the banks in Canada?—A. It enables them to open many offices which could not possibly be kept open otherwise, partly because of the till money and partly because of the profit on the note issue.

Q. What would you suggest was the profit realized by the banks on the notes issued?—A. We pay 1 per cent to the government; I suppose there is a profit of from 1 to 1½ per cent; I don't think we have calculated it recently. I tried to make it plain yesterday that one of the great features about the note issue is that it enables the tills of all the offices, 500 offices in our own case, to be supplied with a medium of exchange which costs nothing until it is issued; that of itself enables branches by the hundreds to be opened through the west that could not possibly be opened if the till money was money on which the banks lost interest every day.

Q. Will you tell me what proportion, or if you are aware, what proportion of this note issue the notes issued by the banks are made up of say five and ten dollar bills?—A. All; we are not allowed to issue any notes of—

Q. I mean as between the two, what proportion are five-dollar bills and what proportion are ten-dollar bills?—A. You would have to take the total circulation of Canada.

Q. Would that information be available?—A. It is quite available to any one who will examine the returns of the Finance Minister and the return of the bank; we can give that information.

Q. Suppose the Dominion of Canada were to assume the right to issue say five dollar notes, leaving the remaining notes to the bank, or vice versa, the ten dollar notes, just what percentage of loss would the banks suffer?—A. I could not tell you that; that would require calculation, but it would be very serious. The five dollar note is the note that has the largest issue.

Q. It would be easy to make a calculation on the figures you have given as to the loss which a bank would suffer?—A. Yes.

Q. What relationships if any, should exist between the resources of a bank itself and the bank's liabilities?—A. I do not know what you mean by the resources of the bank itself. The resources consist of the assets against all of the deposits, plus the capital, plus the accumulated profits of the bank as in its reserve, and plus the double liability.

Q. I am using the expression in exactly the same way that Senator Walker of Australia, who was, as you are aware, for many years the head of the Bank of Australasia; he said in 1900, "Most of us now recognize that there ought be

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some definite minimum proportion between a bank's own resources and its liabilities to the public." I include in that term the entire resources of the bank?—A. Well, now, that is of course a very debatable point. I would say that the liabilities of the great British banks are larger in proportion to their capital than the liabilities of the banks in Canada. I would not undertake to say there would not be a time when there will be an increase of capital, because of the amount of the banks' business, but I say that we are within the margin that the great British banks have. I might also perhaps say with advantage a word or two connected with our history. In the early days the main object of having capital was to secure the note issue; as there were very few deposits to be obtained, and the Bank of Montreal in its early days had a capital of six million dollars, a very large capital in a country like Canada. The Merchants Bank was being established under Sir Hugh Allen, and the capital grew rapidly until it approached near to the figures of the Bank of Montreal. The Bank of Commerce was being established by the Hon. William McMaster; its capital rapidly approached the Merchants Bank, and we ended with twelve million dollars capital for the Bank of Montreal, nine million dollars capital for the Merchants Bank, and six million dollars of capital for the Bank of Commerce. It was thirty years before the Bank of Commerce could issue notes (which as I explained yesterday have a relation to its business) before they could issue notes to as great an extent as their capital; and the early history of banking would show that the capital of the Bank of Montreal, the Merchants Bank and the Bank of Commerce was entirely too large, and the banks created after that started with a small capital say of a million dollars, and have grown rapidly since. So that after all the capital bears a relation to your capacity to pay such a dividend as will induce the people to take shares. If we were to make our capital 50 per cent larger than it is at the present time, we should have to earn a dividend of 50 per cent more, and it is because of our feeling of difficulty in doing that that we hesitate to increase our capital. What you have in your mind is right; there is a relationship, but I place myself on record as saying that the proportion of the liabilities of the banks in Canada to their capital is less than that of the great British banks, which are the standard financial institutions of the world.

Q. I observe between the years 1919 and 1921 the Bank of Australasia endeavoured to raise the percentage existing between its own resources and its liabilities to the public. Would you say that that is a good banking practice?

—A. It depends on its earning power altogether.

Q. The facts I have not doubt are within your knowledge, that that relationship, the percentage of that relationship has diminished, has it not, so far as Canadian banks are concerned?—A. Yes, and with all great banks in the world that I know of.

Q. I observe that of the banks of Canada the three major banks, the Bank of Montreal, the Royal Bank, and the Bank of Commerce, hold considerably over one half of the savings of the people of Canada, and I observe in these cases, if my figures are correct, the percentage I have referred to in each case is lower than in the case of many of the smaller banks of Canada?—A. That would naturally be so.

Q. Why should that be so?—A. Time and credit, good management would naturally result in larger credit to the bank that has that than to the newer banks.

Q. You would not care to place a figure which would establish what you think would be a safe percentage?—A. No; I think time is the only thing that would show that. There must always be a great difference between the credit that a particular institution has managed to establish for itself and that of another institution—

[Sir Edmund Walker.]

Q. Do you mean by time, after a bank runs on too narrow a margin and ultimately comes to insolvency?—A. No, I think probably at the end of another quarter of a century the banks of England will have a larger capital, but it may not be a larger percentage; there will be some relationship between their capital and their credit.

Q. You would not be in favour of fixing by Statute any percentage which would govern this particular matter?—A. Certainly not; it would be poor reward for good management.

Q. What is the relationship existing between the value of bank premises and the capital and reserve of a bank?—A. I do not know that there is any except common prudence; I don't think there is any scientific relation.

Q. I have heard in that connection the percentage has very rapidly increased in Canada; in the year 1890 the percentage was 5.11, and in 1912, 27.16?—A. That, as I should think, has almost altogether to do with the development of the West. The development of the West is all since 1900. Take the policy of my own bank; before 1900 it was to rent offices in all moderate sized towns, and villages, and only to own premises in very large cities. When we came to do business in the West we found there were no landlords, we had to build offices for ourselves; we had some of them built in British Columbia in sections and carried on trains and placed on the prairies. The first decent building in the town on the prairie was often ours. We had to become owners of our own premises whether we chose to or not; and I should think a large part of the increase is due to that. Part of it is due to greater prosperity, they are better able to afford it.

Q. Although I observe, Sir Edmund, that in a comparison with the Bank of Australasia,—I take that because I think it is one of the strongest banks in the Empire—the percentage is considerably less than half that represented by the Canadian banks?—A. I could not tell you the reason of that. I do not know.

Q. Are the figures that are given in the returns made to the Minister of Finance, showing the value of the bank premises, exactly correct and complete?—A. What do you mean by exactly correct and complete?

Q. I mean is it an accurate, full and complete statement of the exact value of the bank premises?—A. We tell our shareholders almost every year that our bank premises are entered at half of their value. We tell them that our bank premises are worth twice as much as they are stated at in our statement. We tell our shareholders that every year and that is true.

Q. What is the real, full value of the Bank of Commerce real estate holdings in Canada, can you give me the figures?—A. Do you mean bank premises?

Q. Yes.—A. In the first place they are \$7,236,000 in the last statement. Those are the premises that the bank owns directly. The bank owns premises through a realty company as well, but those are the premises that it owns directly. That is about half the value of those particular premises.

Q. That is, the value of the premises held by the Bank of Commerce is some \$15,000,000?—A. About 14 or 15 million.

Q. Other holdings are held in the name of a subsidiary company?—A. The realty company.

Q. Now I understood from Sir John Aird that your bank led the way in adopting that method?—A. We led the way in adopting a method; I do not know that it was exactly copied by anyone, but we led the way in adopting a method, in building buildings throughout the West.

Q. What was the purpose of holding the bank premises in the name of a holding company?—A. We had to replace the landlord that I speak of as existing throughout Ontario, who did not exist in the West. We created a realty

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company, and as we built each building we provided out of our current profits for half the cost of the building and took that in stock in the realty company, and wrote that stock off. Then the realty company mortgaged the premises of the bank for the other fifty per cent and the bank rented the office from the realty company at a rental which in twenty years would amortize the rest of the debt.

Q. What would be the value of the holdings of your subsidiary realty company approximately?—A. Eight or ten millions. I think ten millions.

Q. Do you know how many other banks, Sir Edmund, follow the same or a similar practice?—A. I don't know. I am not sure at all what the other banks have done with their stock in a realty company. The point I wish to impress on everyone here is that our stock in this realty company stands at one dollar. It is not hidden among our assets at all; it is simply written off.

Q. The banks of course are a public service corporation, are they not?—A. I believe I was one of the first people to admit that they are in a sense a public service corporation. They have a franchise.

Q. And in that category you would place such other organizations as railway companies, and perhaps similar institutions.—A. The nature of their duty to the general public would be different from ours, but we always regard our function as one of service in the last degree; not differing from private individuals in that respect. That is what all of us are for, and if we are good Canadians, I suppose we are all servants of the general public.

The CHAIRMAN: With the Rotarians and the Kiwanians and the Bull Moose and all that sort of thing. They all say the same thing, that all must serve, and everybody should say it.

By Mr. Shaw:

Q. I don't think they would admit that they are public service corporations in the sense that a bank is a public service corporation.—A. Say public servants and you have it.

Q. One of the restrictions upon the operations of banks to-day is the restriction of the rate of interest, Sir Edmund. We were speaking of that.—A. No, there is no restriction in the Act.

Q. Is there not a maximum statutory limit placed?—A. Yes, but that is not a restriction. That has been settled in the Privy Council. It is a mere statement.

Q. Would you favour making it a restriction?—A. No, certainly not. No greater folly could possibly be attempted. There is 300 years of history to show that.

Q. Then don't you think under all circumstances that perhaps it would be better to wipe out that section altogether?—A. If you read the evidence given to this Committee ten years ago, you will find that most of the sensible people wanted it wiped out, but it was not wiped out and it stands there as a monument of a statement that does not mean anything.

Q. Which at once means nothing to the banks and the courts and to the ordinary unsophisticated individual is a delusion.—A. Will you allow me to say that if this Committee is wise it will wipe the section out altogether and no longer delude the people. Every effort was made ten years ago to get them to do that but the Committee would not.

Q. You suggest then of course that competition amongst the banks fixes the rate of interest. Now let us apply the same principle to the matter of railways. Why should we endeavour to regulate railway rates?—A. I do not think I will undertake to tell you why democracies do all sorts of things they do. I am not a great believer in some of the activities of democracies.

[Sir Edmund Walker.]

Q. I think the railways would suggest that competition is very keen among the railways. Why not leave to them the matter of fixing railway rates?—A. I fancy perhaps it would be a great deal better but we don't happen to do that.

Q. You think it is just because we don't happen to do that?—A. It is because democracies interfere with the natural processes of life and mess things up.

Q. I want to invite your suggestions with regard to the matter of mergers or combinations among banks. We have had many mergers during the last ten years. Do you suggest that these mergers are satisfactory and profitable from a banking standpoint?—A. They have been in our own case. Our mergers have all been in order to enable us to cover the country geographically.

Q. And do you suggest that these mergers are in the public interest?—A. Undoubtedly in our own case. They enabled us to serve the public a great deal better than we would without them.

Q. Would there be a point beyond which it should not go? For instance there might be a possibility of getting down to one bank?—A. That is quite possible.

Q. Would that be desirable?—A. I think the result of that would be the establishment of another bank at once.

Q. You would not suggest that it would be desirable to have only one bank?—A. No.

Q. If there were two you think that would meet the situation?—A. No, I don't say that. I think several would be started for that matter. I think that would take care of itself at a certain point.

Q. What considerations should move the Minister of Finance before he gave approval to such a merger we will say for instance, as the late merger between the Bank of Montreal and the Merchant's Bank?—A. The question of whether it was in the interest of the shareholders, and to avert losses which would take place.

Q. Losses to whom?—A. Well, to the shareholders.

Q. And that you think should be the consideration which would move the Minister of Finance in acting?—A. Yes.

Q. Do you agree with Sir John Aird, if I understood him correctly, that the merger should not have been allowed to take place between the Bank of Montreal and the Merchant's?—A. Of course that depends on what the real condition of the Merchant's Bank was, and none of us have been allowed to see that. Sir John makes that statement upon the basis of a statement made at the time by those who seemed to be in authority, that the Merchant's Bank still had a surplus of about \$1,000,000 odd; and his opinion was, that if it had its original capital and a surplus of \$1,000,000 then it should not have been allowed to fail.

Q. Would you concur with him in that view?—A. I would. I would also recall the fact that the Merchant's had once a capital of \$9,000,000 and lost its entire reserve and \$3,000,000 of its capital and began business again and succeeded. It altogether depends on what the real conditions with the Merchant's Bank were, and none of us know that.

Q. Why don't we know?—A. I don't know.

Q. Why should we not know?—A. Well, I don't know that either. I may tell you that my feelings are with the feelings of most of the people in Canada on that subject.

Q. You are a banker of great experience, Sir Edmund, and wide knowledge, can you tell us from the information that you have why the Merchant's Bank failed?—A. It failed apparently through lending money to a stock exchange

[Sir Edmund Walker.]

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house upon securities that it should not at any time have lent a large sum of money on, but I am only talking from the ordinary statements made in the newspapers; I know nothing as a matter of fact.

Q. So that so far as being a banker is concerned, you have no more sources of information than the ordinary people?—A. No, we have never been allowed to know anything more.

Q. Don't you think it is desirable that the public should know the whole history of this particular transaction?—A. Well as a fellow banker with the Bank of Montreal and the rest, I hesitate to answer that, but I may say we were all of us very indignant that we have not known more.

Q. Then I think it is fair to say that the banks of Canada have received a rather black eye, if you like, from this failure, and a full exposure of all the facts might certainly reinstate the banks in the public confidence, might it not?—A. I suppose it might, but I think it would do a great deal of damage to Canada, the mischief having been incurred. I mean to say, if the bank had failed, that would be one thing, but having passed over to another bank, I do not know whether the washing of all that dirty linen in public would be of advantage. It would satisfy a great deal of curiosity that a great many of us have.

Q. In which I take it you join with the rest of us?—A. Yes.

Q. One other question, Sir Edmund. In 1890, if my figures are correct, the shareholders had at risk in capital and reserve and in double liability, \$79.43 for every \$100 of liability to the public?—A. On what date was that?

Q. In 1890. That would indicate a very sound substantial condition would it not?—A. A very unprofitable time in the history of banking.

Q. I notice that when the same percentage is figured out to-day it is reduced to some 14 per cent and that for the three largest banks of Canada the percentage is 11.07?—A. I tried to illustrate that a while ago, showing how much we suffered from the over-capitalization in those early days. 1890 is not a very fair time. 1910 would be a fairer time. The West was not opened at all and banking had not taken on national features at all in 1890.

Q. Then in 1910 I find the figures here, and I think they would show considerable increase over the percentage I have mentioned. You say that is due to the fact of the expansion of the bank and to the Western situation.—A. Yes.

Q. Has there been considerably more expansion between 1910 and 1920 than during the preceding ten years?—A. Oh, I should think five or ten times; no relation at all between the expansion from 1910 to 1920 and from 1890 to 1910.

Q. One other point on which I would like some information. Is there any way by which the loans which are secured by the directors of a bank may be limited? I mean by the directors not only personally but perhaps as members, directors, and promoters of other organizations. Have you any concrete suggestions to make, if you think it is desirable?—A. I don't think it is desirable to change the present Act. As I tried to explain yesterday, as far as my own bank is concerned everything goes through our credit department and the fact that a director is borrowing or that a director is a guarantor, hurts his case somewhat, and it does not help his case. No director has ever had any influence on my Board that would enable him to borrow more largely because he was a director; he is rather under a disadvantage because of the general feeling about directors' loans, and the undesirability of having a large amount appear in the column of such loans.

Q. In your return to the Government you do not include other than personal loans to the directors?—A. No.

Q. Do you include loans guaranteed by the directors?—A. No.

[Sir Edmund Walker.]

Q. Simply a straight personal loan?—A. Yes.

Q. Could you indicate the comparison or percentage existing we will say between the loans secured direct from your bank by your directors, and the amounts guaranteed by directors?—A. I could not. I could not guess that. As a matter of fact one of the largest movers of grain from the West in Canada, I fancy the largest, is a director of the Bank of Commerce, and guarantees his account. We should simply have to do without his guarantee if you passed such a law. We would simply be deceiving everybody as to the relation of the directors to the bank if you insisted on that, and as all his advances are completely secured by grain we should have to do without that guarantee. We prefer to have it.

Q. In any event that statement made by the bank indicates only the direct liability and no indirect liability?—A. No.

By Mr. Ladner:

Q. Yesterday, Sir Edmund, speaking of the reserve bank, you stated that it had been considered in the States a means of inflation?—A. Yes.

Q. What difference is there between the operations of a Federal Reserve Bank and the issue of notes under the Finance Act? What difference is there in principle?—A. There is no difference in principle.

Q. Then why would not inflation continue under the Finance Act?—A. In the United States there are 26 or 27 thousand banks and each one of them is an individual, and if a member of the Federal Reserve Bank, must apply to it for its particular needs. In Canada, with 17 banks, an enormous amount of the rediscounting that would take place in the United States has been managed within the bank itself. The instances of a Canadian bank needing aid from the Finance Act have not only been relatively rare but they have been confined to the actual moving of the crops and have been paid off during the year. Now in the United States a vast amount of rediscounts appear in the Federal Reserve system which go on, they are not stagnant, but they go on from year to year, and I mentioned, if you will remember, that they had to finance the war and that they loaned on an enormous amount of Government bonds in that connection. If you will take a small bank in the country with a capital which enables it to lend two or three hundred thousand dollars, and you enable that bank to go to the Federal Reserve Bank and get one or two or three hundred thousand more.

Q. They have to put up security don't they?—A. Certainly.

Q. And rather strong security?—A. No, no, not at all like the security we put up with the Finance Department at Ottawa, no relation at all. Their system enabled them to finance many undertakings which could not otherwise have been financed at all and that is what I mean by inflation. It is a question of proportions entirely.

Q. Do not the member banks have to keep a larger gold deposit in the Federal Reserve Bank in the States than is required in Canada, forty per cent is it not?—A. For their note issues?

Q. Yes.—A. Yes, but they don't keep forty per cent.

Q. There is nothing like that in Canada?—A. No, but I am dealing with the fact, and it is a notorious fact, that in the United States many millions of re-discounts were obtained which enabled industries to create goods and buy goods which in the end brought about a serious condition. Because of the main staples of the country being the only things that could be readily sold to pay debts, the enormous reductions in values took place.

By the Chairman:

Q. Is that commercial paper largely re-discounted?—A. Yes, so-called commercial paper.

[Sir Edmund Walker.]

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By Mr. Ladner:

Q. But, Sir Edmund, are you assuming that the past conditions in the United States, in the last two years have been more favourable or worse than in Canada?—A. I am talking about the moment of what was called deflation. The moment when, as a matter of fact prices of all commodities fell; cotton, copper, iron, rubber, every kind fell, and they fell because production had been greatly increased through rediscount for the smaller banks through the Federal Reserve Bank.

Q. Yes, but under the Federal Reserve Bank in the United States—no doubt the principle in England is much the same—I understand that a member bank—and I get this from the American Bankers' Association publication—may rediscount as long as the Federal Reserve Bank has paper available, it deposits with the Federal Reserve agent and its gold reserve does not fall below the normal legal minimum of forty per cent. What greater stability can you have than that?—A. I am telling you that whatever may be the stability, the result of getting a rediscount which is profitable to the bank obtaining the discount, is unsound and caused an inflation which brought about the enormous fall in prices, and I offered you the evidence of one of the ablest writers on banking subjects in the United States, Mr. Hepburn.

Q. Will you not agree with me that five years prior to 1914 there was almost unanimity amongst the bankers against a Federal Reserve system, but in 1914 they adopted the idea and to-day 90 per cent of all banking interests in the United States agree that it has great advantages to the general public and to the man in business?—A. I am afraid that if you were to talk to the people who understand banking you will find a great many of them who will say that the policy of the Federal Reserve Bank hereafter will have to be quite different from what it has been in the last three or four years.

Q. At the present time will you say the prevailing opinion is for or against, in the United States, the Federal Reserve Bank?—A. I would say that the opinion of the few people I know in the United States capable of forming an opinion, is in agreement with Mr. Hepburn and with my own statement.

Q. Will you agree with me that the American Bankers' Association believe in its usefulness and its advantages?—A. The American Bankers' Association does not believe in branch banking, but the American bankers are adopting branch banking very fast. I should not think a resolution of the American Bankers' Association shows us anything.

Q. Do you find any other objections to the Federal Reserve Bank, beyond your opinion that it would create an inflation?—A. I stated yesterday quite plainly that the principles of rediscount should be principles that penalize the bank getting the rediscount, and not principles that reward it. I quoted Mr. Hepburn as a person who agrees with me. I based my statement of my position regarding rediscount on that; that if a bank has over-loaned for the moment, and needs to be helped, it should not be possible for it to be helped in such a way that it will make money out of obtaining a rediscount.

The CHAIRMAN: We went into all this yesterday, Mr. Ladner.

Mr. LADNER: Not into the inflation part?

The WITNESS Yes, there is nothing new to-day, we are saying exactly what we said yesterday.

By Mr. Ladner:

Q. Then there is one more practical question I want to ask. Do you remember in 1921 in the Western Provinces, the rather serious situation that occurred with regard to the cattle, sheep and swine business there?—A. You have not asked a question have you?

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Q. Yes, I asked you if you remember that.—A. Yes, I remember there was such a trouble.

Q. What is the practice of the banks, when prices are down and the men are loaded up with cattle and sheep, with regard to loans; is there any method by which they can extend the time for their loans?—A. Yes.

Q. On business of that kind?—A. Yes, I should say the practice varies, depending in most cases on when they think they are going to be ultimately repaid.

Q. What length of time are those loans continued in practice?—A. As Sir Frederick Williams-Taylor said, sometimes three, four or five years. There is nothing in the Act that prevents their being continued for any length of time. As a matter of fact they are continued by stretches of four to six months, as a rule.

Q. Would that be on cattle, sheep and swine securities?—A. Yes.

Q. In the summer and fall of 1921 do you remember a complaint about the substantial withdrawal of bank credit for that class of securities?—A. I don't know what is meant by a withdrawal of bank credit. There is bank credit in existence not withdrawn. There was bank credit in existence then and there is now, if people have an adequate security for a safe transaction to offer.

Q. I am using the words of one of the large Western Associations. Perhaps we should say restrictions?—A. No, not restrictions. Inability on the part of the public to offer to the bank adequate security for new transactions. That is not a restriction.

Q. At that time a complaint was made by this association of the absence of long-term facility credits, a comparison was made with the advantages in the United States given to their breeders for such credits. What would be your opinion with respect to that question?—A. That I suppose refers to these intermediate banks, which are not commercial banks or land banks, which have been created for the benefit of stock raisers.

Q. Would that be advantageous in Canada?—A. I think the banks serve all that purpose, but there is room for a difference of opinion regarding that. In the United States, because the banks did not serve that purpose they created this special form of bank, but I don't think we need it.

Q. In your opinion the banks here afford facilities for long-term credits in connection with the cattle, sheep and swine business of the West?—A. Yes.

By Mr. Stevens:

Q. Mr. Chairman, I will not be here this afternoon, and I have just one question if Mr. Irvine will be good enough to give way. It is in reference to an amendment to the Act. In this fire insurance pamphlet, by the Federation Insurance agents, they make a suggestion for an amendment to section 90—I will hand the pamphlet to Sir Edmund—in which they ask that a provision be put in the Bank Act, prohibiting a bank agent from directing the insurance to go to any particular agency. I think it goes further than that, it suggests that the banks shall not allow the insurance to pass to an agency in which any of its officials or agents have an interest. I want to ask Sir Edmund what objection he sees to that, if any, from the standpoint of the bank, because that particular amendment may be before the Committee? I must begin by reading this section. It says that wherever any bank makes an advance upon the security of any property, real or personal, movable or immovable, by way of mortgage, and so on, such insurance shall be effected by or through an agency in which neither the bank nor its directors or officers or servants have any interest either directly or indirectly, or with which neither the bank, its direct-

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ors, officers or servants have any affiliation in any manner whatsoever.—A. I think that section is quite absurd. But I should like to say that thirty years ago when I was general manager of the Bank of Commerce, I expressly forbade any manager of the Bank of Commerce to be an agent for a fire insurance company, or a life insurance company, or to suggest in any way any particular company in which a customer of the bank should insure any goods that he was pledging to the bank. We have no interest in a trust company or in any insurance company. This does not hit us in any way; but as to saying that the bank must not insure or must not allow anything to be insured in an insurance company in which one of our directors happens to be a director or in which anybody connected with the bank happens to have a share, that is rather absurd. We think that banks have no business trying to sway their customers towards particular insurance companies, and if there is any way of restricting that, all right; but I think to say that neither the bank nor its directors, officers or servants shall have any interest whatsoever either directly or indirectly, that is that insurance must be effected through an agency in which neither the bank nor its directors, officers or servants have any interest, that is practically impossible.

Q. Would Sir Edmund object to a measure to the effect that no bank official shall act as a commission agent for any insurance company?—A. I would not object to that. That has been the practice of my bank for thirty years.

Mr. CLARK: Mr. Chairman, if I may ask a question?

The CHAIRMAN: Yes, go on.

By Mr. Clark:

Q. It has been suggested that banks act in the same way that surety companies do in agreeing to indemnify against loss. I might make it clear by giving you the printed form of the Canadian National Railways, which indicates the guarantee, which indicates that the banks might act in the same capacity as a guarantee company and give an undertaking to indemnify?—A. This is quite a different matter. This may be a matter of profit to the guarantee company, but it is not a matter of profit to a bank. It frequently happens that the guarantee of a bank to a railway company for freight charges is a standing thing in connection with a customer's business. He comes and opens a credit with us, and part of the arrangement is that we shall guarantee to the railway company or shipping company that his freight up to a certain extent will always be paid. I do not think that should be interfered with. I should think the giving of a guarantee is really part of a bank's business.

Q. It is not a matter of profit to it?—A. No.

Q. You make no money out of it?—A. Just out of the general account of the customer.

Q. There is no charge for the guarantee?—A. I think not as a rule. The entire business of that kind is very trifling.

Q. It is also suggested that the banks perform the functions of guarantee companies by giving marked cheques. For instance, when a government calls for tenders for certain contracts, they require the filing by the directors of marked cheques to guarantee the due performance of the contract; is there any profit in that business to the banks?—A. No, but that has been a practise as long as I can remember Canadian banking, long before there were any guarantee companies in the country.

Q. Is it of any special advantage to the banks to do that business?—A. It is a special advantage to the customer, and so far as we can serve him it is an advantage generally to the bank.

[Sir Edmund Walker.]

Q. Are those marked cheques charged to the customer's account?—A. Yes.

Q. And if there was an overdraft would the bank charge interest?—A. Yes, if there is an overdraft, if it is put up in that way; I have no doubt in return an interest rate is allowed. That is a business the banks have always done.

By Mr. Irvine:

Q. I want to exercise this privilege of questioning Sir Edmund on the matter chiefly of the resolution as to the basis of credit, and I would like just to say that I have a goodly number of questions, and I hope Sir Edmund will bear with me, and also the committee, because I am looking only for information. I believe in Sir Edmund Walker we have a gentleman who can give a great deal of information on the question. I understand, Sir Edmund, that you are a practical banker, and that you are more than that, judging from your answers to the committee and from certain statements which you have caused to be published. As a practical banker do you consider it a part of your duty to understand the function of the institution entrusted to your care?—A. Certainly.

Q. Would you state briefly what you conceive that function to be?—A. The function of a bank?

Q. Of the whole banking institution?—A. The bank of course has a great many functions. The bank of course is supposed to lend to the industry of the country the money necessary to amplify its resources and enable it to enlarge its business, not to lend all the money, as was suggested by Major Douglas, but to lend a part of the money that is necessary to amplify the business of any producer, let us say to carry in a sense the peak of his load. He should lend that upon securities which are reasonably liquidable, liquidable within a reasonable time, because he lends that money out of deposits which are to a large degree exigible on demand. He is helped in affording that credit through the note issue privilege, which has been referred to already. He is of course the repository of the savings of people of all classes, affording them safety for their capital and a reasonable rate of interest. I do not for the moment think of other functions; those are the two main functions of the bank.

Q. I shall have occasion to refer to this later; I understand that it is chiefly to lend money and to act as a safe repository. What would you say credit is, I want to get our definitions first?—A. Credit is an intensely individualistic thing that inheres to individuals or to corporations, or to governments. It inheres to them as such, and it is that quality of solvency and of character which causes the creditor to extend confidence in the proposed borrower.

Q. Then you place the chief emphasis upon character and the quality of solvency?—A. Yes.

Q. That is then I may say the basis of credit and the basis upon which the bank issues its credits?—A. Yes.

Q. Do you distinguish between credit and currency, if so in what way do you distinguish?—A. Currency is of course a credit that you extend at the moment. If you mean by currency a Canadian bank note, a Canadian bank note is credit to the extent that it is issued to a particular individual when you hand it to him as money; but you do so because credit in that particular form is acceptable by the public at large. No one, for instance, is obliged to take it. I pay a note out to John Smith, Robert Smith is not obliged to take it from him at all, but he does so because he extends towards the bank sufficient credit to make him willing to do so.

Q. Am I correct in saying that there is really, comparatively speaking, very little currency used in banking in any country?—A. Yes in this country, and in the United States only about six or seven per cent of the entire volume of transactions is done through the use of bank note currency.

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Q. And Great Britain even less than that?—A. No, more than that; the cheque system is carried farther in this country than in Great Britain.

Q. I think you said the other day it was dangerous to use the term money loosely. To whom would the danger come?—A. It is dangerous to any man to have his ideas about anything confused; that is all I mean.

Q. No real danger of any specific nature that you refer to?—A. No; the truth is always a valuable thing.

Q. When would you consider the term wrongly used—would you apply the term exclusively to currency?—A. No; I tried to make it clear that there are so many different forms of money that it is desirable almost to add something to the statement of money in order that one may understand just what you mean; currency is money if it is accepted as such; gold is money, silver is money, coin is money, and there are senses in which a bill of exchange is international money, and there are senses again in which currency is so local that it is best to call it local currency, because it only has acceptance as money in a small area. I stated that in the early days in parts of Canada the tickets of the shop keeper were practically the only money there was, and they were acceptable in a certain area, because everybody dealt at that particular shop. Anything that the public will accept as money, as a medium of exchange, is in one sense money.

Q. In that sense a cheque is money?—A. Yes, if it has general acceptance, not merely accepted by one person, however.

Q. To get to another definition, is the gold basis in your opinion a theory, or a fact, or both?—A. I should say it is a fact.

Q. To what extent is it a fact?—A. It is better to use the real words, and I should say it is a basis.

Q. Or the basis?—A. Well, the basis.

Q. Of what?—A. Of the credit system of the world.

Q. I thought you just said that the quality of solvency and character was the basis of credit; now you say it is gold; is there any difference between them?—A. No. The power to extend the credit is a different thing from the extension of the credit. I said the giving of the credit by the person who gives it requires solvency and character, and so on, but the ability of the person who gives the credit depends upon a gold standard.

Q. The man who gives the credit gives it I presume on a certain basis?—A. Yes.

Q. In the first place I understood you to say that the quality of solvency and character was the basis of credit, but when I become a banker and want to give credit then I forget the quality of solvency and character and say gold is the basis?—A. That is the other side of the shield; it is another thing.

Q. We have two bases of credit?—A. No; the extent to which it is safe for the world to extend credit has a relationship to solvency and to gold; I mean general solvency, the extent to which you are willing to lend credit to a particular individual has to do with his solvency and his character. I mean by that even if the character was good and the person was solvent it would not be safe for the banks of the world to lend beyond a certain point where they are sure they can keep the volume of credit on a gold basis.

Q. In other words would I be correct in saying that your first definition was the definition from the economic point of view, the other from the banker's point of view?—A. My first definition is the basis on which you would lend money to somebody, and the second is the definition as to how safe it would be to lend the totality of money; those are two quite separate things.

Q. I shall have to come back to this again. While I am at this, why would a person in your opinion want to exchange a note of any kind for gold?—A. He rarely does.

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Q. That is one of the great values, is it not, of the system?—A. Yes. If he were to be leaving this country for some other country where he was not sure at all of the nature of their currency, he would want to exchange the currency of this country, which is local in the same sense I spoke of, for gold, so as to have a currency suitable in the other country.

Q. The currency suitable in the other country would be one that would be exchangeable for commodities?—A. Yes.

Q. Therefore it is not gold he really wants, it is commodities?—A. Not at all; when he leaves this country he wants money that he can exchange for commodities in another country.

Q. The reason why he wants something in this country that he can exchange is that he wants commodities in the other country?—A. He may want to pay a debt in another country and not buy any commodities at all; to pay a debt, not to buy commodities.

Q. You would not suggest gold was brought into existence to pay a debt with?—A. I would suggest that gold is sometimes the only way in which you can pay a debt.

Q. And the debt is a promise to pay goods of some nature?—A. No, I say a debt—

Q. For example, all that the world does want is goods, is it not?—A. I would not say that.

Q. Goods and services?—A. No, there are men who desire absolutely to have money; there have been people who have even hoarded gold.

Q. You refer to a person who is not quite wise?—A. Unwisdom is a very common thing in the world.

Q. What I was asking is do you mean to say that that is a normal state of mind?—A. No.

Q. I agree with you. There are some people who may be abnormal; does the quantity of gold then bear any relation to the possible production and circulation of goods?—A. Yes, I should think it did.

Q. What is that relation?—A. In a rough way it used to be thought there should be about 10 per cent of actual gold underlying the total credit structure of the world, or of any one country.

By Mr. Good:

Q. Will you pardon me a question; what would happen, Sir Edmund, if we could not find any more gold; would that prevent the world's business from expanding?—A. If we could not find any more gold there is no doubt about it there would be a shifting of prices, a lowering of prices that would be very serious, and we have seen that. We have seen long periods when the world did not discover much gold, and we have seen periods when the world discovered a good deal, and undoubtedly values have changed to some extent because of that fact. It is quite possible that we might have to find another standard; it is not an inconceivable thing at all, but it happens to be the best one, that is all.

By Mr. Irvine:

Q. If we should not find any more gold, or if we should find very little more and the volume of the world's trade increases very greatly, it might be possible we would have to abandon the gold basis?—A. Yes; we would have to find another thing that would do the thing that gold does now; we could not do it with nothing.

Q. The ratio of gold to the production and circulation of goods is supposed to be 10 per cent, you said?—A. I said the ratio of gold to the quantity of

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credit at any one time in the world; that is more than merely the production of goods, because the accumulated debts of the world that are held by private—

Q. Would you say that ratio was at the present time maintained, taking the world at large?—A. I should think not at the present time; I should think the war has seriously disturbed that.

Q. In the first place I understand that the gold is only a 10 per cent basis at the best, and in the second place that above that 10 per cent basis it does not now exist; then what basis does exist?—A. I do not know what the proportions are at the present time. No economist as far as I know of has calculated the basis at the present time, but any one can see how the world is struggling at the present time from inability to convert currency into gold.

Q. Have you observed any struggling in Canada of that nature?—A. No; we are not very far from a gold basis. We have struggled to this extent, there have been times in the last two or three years when it has cost 18 per cent to pay debts in the United States incurred before the war; we have suffered to that extent.

Q. When circumstances really required gold to fulfill its functions as the basis of credit, has it ever been found adequate?—A. I think it has been found adequate over very long stretches of time; interfered with by war, or some great social convulsion that has upset what gold can perform—

Q. That is in your opinion it has always been adequate except when it was wanted?—A. No, do not put words into my mouth; I did not say that. I have simply said that over long stretches of time gold has been found adequate, but it has not been so when the world has been convulsed by a great war. After every great war a long struggle has been made to bring the world back to a gold basis. Let me illustrate that by what happened at the time of the Franco-German war. France had to pay Germany a large amount of money, five billion dollars. That money was received by Germany; that came at a moment when trade was growing rapidly. That caused an amount of building in Austria and in Germany which produced the panic of 1873, which of course stretched to America, and distressed practically the whole world. At that moment only Germany and England were on a gold basis; the United States was not. Canada was in its small way, nothing in North or South America was on a gold basis except Canada in its small way, nothing in Europe except Germany and England. For thirty years the nations of the world struggled from paper money back to silver, and then back to gold, and before the war most of the nations of the world that cared about their credit had struggled back to a gold basis. Then the war has completely swept that out of existence, and all of the honourable people in the world, all of the people that are trying to do all they can to build up the world, desire as soon as possible to get back to a basis that can be recognized as honourable between the nations, and that means the gold basis.

Q. Do we or do we not require to have more confidence if possible, during a crisis than at ordinary times?—A. More courage.

Q. Is it possible to have courage without confidence—but we won't go into metaphysics; we had better stay with the gold basis, which is more metaphysical than metaphysics. I want to get really what this means. This gold basis, which is more required if it is going to function in my opinion when the country is really facing a crisis, is not to be found there when the crisis comes; then am I not right in saying that your gold is only a basis when people do not want it, when confidence can be retained even without it?—A. I must simply repeat what I said before, which was a complete answer, that gold is an effective instrument for that purpose when the world is in a normal condition, and when a war of a sweeping character takes place and huge issues of credit are neces-

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sary to pay for the cost of the war, then gold falls down. If that is a defect in gold I have only to say that gold is the best instrument that we have ever found up to the present, and if it is possible to replace gold with something else that would better perform the service of it, that had better be done. The world has discussed this question for two or three centuries, and it has concluded over and over again that it knows nothing that is so valuable for the purpose as gold.

Q. You will agree with me, I presume, that the strong man who can carry through a crisis is of more service to himself and to society than the weak man who has to be carried through a crisis?—A. Yes, but there are crises that no strong man can carry through.

Q. But when the crisis came and the gold basis failed, we found something that did carry us through; in your opinion is not that a better basis than gold itself?—A. It has not carried us through.

Q. We are still going?—A. Some of us are still going to perdition, still going to more and more trouble. Germany is an example of how we are going, just exactly.

Q. If we are going to perdition we will have to blame the bankers, because they are in charge?—A. Were we in charge of the war?

Q. I think you were?—A. I disagree absolutely; I most emphatically state that that statement should not have been made here.

Q. I have a difficulty in recalling it now, but I have my opinion, and perhaps I should not express that opinion at this particular moment. But still continuing with gold, do you recall being questioned about ten years ago in this same Committee; a certain Mr. Thompson asked you:

“Can you not use the Canadian gold in the United States?—A. No, it is not legal tender.”

Then it is pursued quite a length, and then this question is asked:

“Q. Suppose you had a million dollars to pay in New York, would Canadian gold be of any use in paying it?—A. No use whatever.”

What is the meaning of that?—A. No use whatever was in a sense a foolish reply. Let me explain exactly what it means. In the first place that discussion was a discussion entirely about the desirability of Canada having a gold mint of its own, and what I tried to explain at that time was that you could not pay a debt in New York, and as that is the place where almost all our outside world debts were paid, it was desirable for us to have the kind of gold that would be accepted in New York; and what I meant by saying that Canadian gold would be no use whatever was that it would have to be melted back into a commodity and bought at its value as a commodity and the loss on that would be such that it would not be of any practical use for our purpose. That was an argument as to the desirability of Canada having a gold mint of its own.

The CHAIRMAN: Bullion would do?—A. Yes.

By Mr. Irvine:

Q. You said yesterday that you objected to money that was not subject to a daily redemption?—A. Yes.

Q. In that case were you using money in its dangerous form or safe form, or in what form did you use it?—A. What I said was I objected to paper money unless it was based on gold, or unless it was subject to daily redemption.

Q. You would object to all the money that is in circulation at the present time?—A. Yes; we are in an interregnum caused by the war, and our present condition is not satisfactory.

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Q. To whom is it not satisfactory?—A. To anybody who understands credit.

Q. Would you mind explaining briefly what you mean by a daily redemption?—A. I explained yesterday that the emission of a note by a Canadian bank is caused by somebody wishing to draw money from the bank, and the note therefore goes out to create a particular credit service to pay that man. He may wish to pay somebody else with it, but in a short time that note returns to the bank, is paid by the bank and is practically out of existence till it is paid out again. If you had a note that is subject to that redemption, but where the redemption did not actually take place, your currency would not be good unless you have an effectual, real, daily redemption of each issue of banking paper after it has performed the particular function it went out to perform, and one or two functions that follow that. Unless you had that the paper money is bad.

Q. You refer to a daily redemption in a clearing house to balance debts with debts, and you actually call upon your money to pay that little balance?—A. No; there are countless people coming and paying their debts across the counter of the bank with notes.

Q. Almost similar to the use of gold internationally, or the theoretical use of gold internationally, that you are supposed to pay trade balances with it?—A. I do not know what you mean by that. If John Smith gets a note of the Bank of Commerce in payment of a debt, he pays it into his bank, the Dominion Bank, and the Dominion Bank sends it to us through the clearing house, and if John Brown gets our note, he may be a customer of the Bank of Commerce, and he may deposit it or come and ask for money in exchange.

Q. In a general way one balances the other?—A. Yes, that is the virtue of the clearing house system.

Q. Is it not the confidence that the people have in the gold basis theory rather than the actual amount of gold itself that makes for stability?—A. Oh, surely.

Q. It is the confidence that we have; therefore does it not follow that the basis of credit is confidence?—A. I have explained that, I thought quite clearly; the basis of credit so far as the particular individual borrowing money is concerned, is confidence in him, but the totality, the volume to which the credit operations can be extended, has a relation to our being able to be sure that debts can be redeemed on a gold basis.

Q. That would be confidence, would it not?—A. No, not confidence; I mean to say there is a point beyond which confidence will be lost; gold is the underlying principle. Then the state of mind is more important than the amount of gold?—A. The state of mind is always important, I suppose.

By Mr. Stevens:

Q. I did not hear the answer.—A. I say a state of mind is always important.

By Mr. Irvine:

Q. There has been some question raised about fiat money. Cheques you said a moment ago are considered money in the safe sense?—A. In the same sense?

Q. In the safe sense as opposed to the dangerous sense you referred to yesterday.—A. In the safe sense, yes.

Q. At least cheques are as good as money in Canada? Then supposing a farmer gets a loan after depositing his security with the bank, and the banker opens an account for his credit, placing the amount of the loan to the farmer's

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credit. The farmer goes across the street afterwards and issues a cheque to a merchant to pay a debt. On the morning after, the merchant brings the cheque back to the bank and deposits it to his credit.—A. Suppose he does not keep his account there?

Q. Then he will deposit it with someone else, but for the sake of argument assume that he keeps his account in that bank. What is that? A fiat money?—A. It is not money at all.

Q. I assumed that it was money from your own statement that a cheque was money?—A. The cheques are out of existence now.

By the Chairman:

Q. So long as it is functioning as money.—A. You mean the cheque while it was in its intermittent state, before it came back to the bank?

By Mr. Irvine:

Q. Yes. What is that but fiat money?—A. What do you mean there by fiat money? Fiat money is money that is not to be redeemed and passes on the fiat of the Government. What has that to do with a cheque?

Q. I think it has a good deal to do with a cheque. But you say that it has not anything to do with a cheque?—A. I don't think it has anything to do with a cheque. It is not fiat money. In the first place, the man that got it did not need to take it unless he wished to.

Q. I suppose in the last analysis a man does not need to take anything?—A. He does. He needs to take fiat money in payment of a debt. He has no choice.

Q. He might take the choice that he did not want the debt paid, but that is not very likely?—A. No.

Q. The cheque is passing for money as I understand it in the case which I give. The cheque is not redeemable in gold in Canada to-day.—A. It is redeemable in gold in Canada under ordinary circumstances. It is not redeemable in Canada to-day because of the particular war conditions that we have mentioned so often.

Q. But surely you will admit this, it is only redeemable if you are called upon by an individual to make good the liability?—A. Yes.

Q. But if that liability was called upon by all individuals then it is ridiculous obviously?—A. I have stated that gold is the underlying principle of credit. No one has made a statement so absurd as that there is enough gold in the world to take care of all the credit; how could we do business with a ten per cent of gold for all the credit. The absurd suggestion you have made is that everyone in the world will want their money at one time. The world would go to pieces, that is all.

Q. That is if we had a stronger basis the thing would fall?—A. I do not understand.

Q. I say if we had a more firm basis to our credit system than we have, the whole thing would fall?—A. I do not understand what you mean by that.

Q. You say if we had enough gold to meet every liability of every instrument?—A. No, I did not say that at all. I said if all the credit instruments were presented for payment at the same time, the entire system would fall. If everybody insured in a fire insurance company had their buildings all burned down at the same time, then all the insurance companies would fail. If all the life insurance policies that are in existence became claims all at once, then all the life insurance companies would fail. That is the analogy and there is no other analogy.

[Sir Edmund Walker.]

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Q. That is very good, and consequently there is no basis in gold at all?—
A. I don't admit that for a moment. I said that there is.

The CHAIRMAN: That is a matter for argument.

By Mr. Irvine:

Q. Yes, that is a matter for argument. Now Mr. Bevington made a proposal which the Bankers' Association took cognizance of in the memorandum presented to this Committee by Sir Frederick Williams-Taylor, and it was taken exception to on the ground that it would lead to fiat money. My question to you in that regard is, supposing we instituted the banking system as adumbrated by Mr. Bevington, would that not have the same basis that we have now, that the present banks have, for issuing credits, namely, we would have all the gold in Canada that we have now and would not the Dominion notes which are issued to the banks to-day if issued under Mr. Bevington's scheme, for collateral or for securities which they may have—would that not be just as stable a credit basis under Mr. Bevington's scheme as we have now?—A. No, it is not the same system at all. The notes to be issued under Mr. Bevington's scheme are not to disappear when they have performed their function as credit, they are to go on.

Q. Why?—A. Who is to redeem them?

Q. We have just decided that they cannot be redeemed, that they are going on; if you can only redeem ten per cent of your notes in gold what becomes of the others to day?—A. If there is too much of it, inflation takes place, and all the disasters that follow inflation.

Q. But there must be too much of it because you have just told me they only have ten per cent taking the world at large.

The CHAIRMAN: But he also says that as a matter of fact they are redeemed with that ten per cent. We don't need to waste time with that.

By Mr. Irvine:

Q. Then I will go back to my question. If ten per cent can redeem for the Bank of Commerce, why can it not redeem for Mr. Bevington?—A. Mr. Bevington's notes are not redeemed. I have explained that when a Canadian bank-note has performed its service, it comes back and is killed. You do not propose that with Mr. Bevington's scheme.

Q. Why not?—A. Who is going to kill it?

Q. I can; I do not see why I cannot commit that sort of murder as easily as the Bank of Commerce.—A. You are simply proposing an unlimited amount of inflation.

Q. No, I am not.—A. Then you will have to explain Mr. Bevington's scheme to me for I am afraid I don't understand it, and I suspect that perhaps no one does.

Q. I am very willing to do that, but when it was criticized by the spokesman of the Bankers' Association, I thought they had done him the honour of studying it. It would appear from your answer that they have not.—A. I have studied it, and I say it is a scheme that leads to the comparatively unlimited inflation of currency, that you have no plan of redeeming that note when it has performed its service, and it stays out as a credit instrument.

By Mr. Good:

Q. If I may be pardoned for interrupting: If some scheme could be provided for effecting the same killing of the paper instrument that you have provided in the Canadian banks, would the chief objection to this Bill be removed.

[Sir Edmund Walker.]

—A. Yes, but the entire advantage of it would fall; the power to go on lending money indefinitely would fall. This is a scheme for lending money for ever by issuing something that will never be paid.

By Mr. Irvine:

Q. I will come back to that in a minute on a more fundamental question; the reduction of prices in Canada in 1920 or thereabouts preceded the deflation of credit by the banks?—A. Yes, it always does.

Q. Then you would say that the banks took no active part in the deflation which occurred?—A. No conscious part, that is, no part intended to produce deflation.

Q. No conscious action taken. Well, Sir Edmund, were you conscious when you wrote this? But I may have put that question wrong; I mean, did you have a conscious intention to that regard when you wrote this? This is from the Financial Times in 1921, from the annual address of Sir Edmund Walker:—

“We cannot adjust prices without also bringing about a contraction in the volume of paper money and other instruments of credit, and so far as it is possible to enforce contractions without interfering with the production of what is really necessary, the reduction of prices will be facilitated.”

Did you, Sir Edmund, in answer possible enforce contraction to facilitate the reduction of prices?—A. That is the public of course. Not me at all; you do not imagine that that means a bank do you? We are talking of what the community is doing for itself.

Q. You would say that the community had more power over contraction or otherwise of credit than the banks?—A. I would say as I said yesterday, that as soon as the public had not suitable transactions to offer to a bank for discount, credit was contracted by that fact. The banks do not contract a credit.

Q. Then there is no relation in your opinion between the contraction of credit and that of prices, or is there?—A. I did not say that at all.

Q. Would you say that then?—A. I would say that as the fall in prices certainly means a superabundance of goods, a superabundance of any article means that that particular article at the moment should not at the moment be manufactured in its normal extent. That in itself brings a less request from the bank for money and the contraction takes place by that fact. We do not cause it.

By Mr. Good:

Q. You do not mean inability to purchase, Sir Edmund?—A. Well, of course it often is inability to purchase.

Q. You said it meant superabundance of goods?—A. Well, superabundance of goods. If there is an inability to purchase, there is a superabundance of goods from one point of view. The fact is that tremendous losses have taken place, in the big commodities, when there was not a superabundance of goods but they were in the wrong place geographically at the moment, they were not near enough to the point of consumption.

By Mr. Irvine:

Q. Having regard to your definition of the function of a bank, would I be right in characterizing bankers as dealers in money or money mongers?—A. I don't know. There are a great many offensive expressions that people manage to use about banks, that are not ordinarily used, and probably do not serve any useful purpose.

[Sir Edmund Walker.]

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Q. I do not mean that term offensively; is "monger" an offensive word? There is the term ironmonger.

The CHAIRMAN: It depends greatly on the expression of countenance, and whether you smile when you use certain words.

The WITNESS: I do not mind your calling us "money-mongers", but I do not know exactly what it means.

By Mr. Irvine:

Q. You are dealers in money? Money changers?—A. No, really a "Bureau de Change" is not exactly a bank. "Money changer" is an expression given rather to them than to a bank.

Q. As money mongers then, what is the immediate aim of a bank?

The CHAIRMAN: To lend money, on the credit of merchandise.

By Mr. Irvine:

Q. I have no objection to taking the more dignified words, if they are more dignified, but we will not debate that now. As such, what is the immediate aim of a bank in making a loan?—A. Do you mean the aim or aims?

Q. I mean the aim that dominates his immediate action?—A. I don't think he would be conscious about what is dominating his immediate action. I think he would be more concerned in helping his customer to make money.

Q. In what way would he serve his customer?—A. By affording him the credit necessary in some emergency of his business.

Q. You would suggest that it would not occur to a banker to consider the financial result?—A. I would think the overwhelming number of bank managers are not thinking about that at all, but are thinking about how they can look after their customers' business, but they would be very foolish if they did not think incidentally about how to earn dividends for the bank.

Q. Then let us put it this way: would you be willing to admit that the dominating idea of all banking business in any country is financial results?—A. What do you mean by financial results?

Q. I mean to make money make money.—A. I am not going to be driven to a statement that is not my own. It is true that what people do is often done from mixed motives. The bank is concerned with its customers, it desires intensely that all those customers should succeed, and most of the time it is thinking about how it can manage to effectuate that, to help its customers in the particular transaction, but it is also thinking about its profits of course.

Q. Would you concur then, that money is at present a commodity?—A. No, money is not a commodity.

Q. You say money is not a commodity? Would you agree that it is used as if it were a commodity?—A. No, I do not.

Q. What do you understand by the phrase "the money market"?—A. The price of money. That does not make it a commodity. There is also the price of life insurance, but life insurance is not a commodity.

Q. You have heard the phrase "cheap" and "dear" money in the money market?—A. Yes.

Q. Then you say that although money is being sold in the market, it is not a commodity?—A. No, it is a right. That is, paper money. If it is gold and is melted into a bar, it is a commodity.

Q. But if it is paper money and standing soundly on its golden basis, it must be regarded as the gold?—A. Is the deed of a house a commodity because it controls the ownership of the property?

[Sir Edmund Walker.]

Q. Decidedly it is, because you do not sell the deed without the house.—A. I do not agree with you. I say the deed is a right, and I say the paper money is a right.

Q. But if you, Sir Edmund, sold the deed of the house, and refused to give the house, then I think you would have some argument there, but if you sold the house through its deed, and gave the actual house and the deed, it would be a commodity?—A. That is your own definition, but I do not agree with it, that is all.

Q. Then may I ask you what a commodity is?—A. A ponderable thing that you can handle and sell to people, like food, wheat, iron or anything of that kind. Gold coins would be a commodity if you melted them into a bar, or they might be a commodity if you were in a country where they have no law that you must not melt gold coin. Silver in the same way is a commodity to the value of the silver, and the rest of the coin is a right, a contract with the Government that it will redeem it at one dollar although the silver in it may only be worth fifty cents. There is no use trying to make out that rights are commodities.

Q. I am sorry that I cannot argue this with you, but I can only take your opinion. Are you familiar with the following quotation:—

“It is advisable to do all in your power to sustain such newspapers, especially in the agricultural and religious Press, as will oppose the issue of greenback paper money, and that you also withhold patronage or favours from all applicants who are not willing to oppose the Government issue of money. Let the Government issue the coin and the banks issue the paper money of the country.”

“To repeal a law enacting national banknotes, or to restore to circulation the Government issue of money, will be to provide the people with money and therefore seriously affect your individual profits as bankers and lenders.”

Are you familiar with that?—A. No. I remember the greenback campaign. In my own lifetime I have gone through the same argument we have been having to-day five or six times. I remember the greenback agitation and the effort to do away with banking and fill the United States with greenbacks.

Q. I have an extract from a circular issued by the American Bankers' Association, of 1877, and what I have read you is a portion of it.—A. I don't know anything about that. I never heard it before.

Q. Would you deny the sequence of cause and effect as stated there?—A. It was a very good thing that they were not allowed to issue greenbacks if that is what you mean?

Q. That is not what I mean but if that is your answer I will take it.—A. It was absolutely one of the great moments in the history of the United States when they were able to prevent such a folly.

Q. Evidently then you would disagree with the statement that I read, because there it would seem that there was a point of divergence between the best interests of the people and the profits of the bankers. Have you ever met with the following quotation:—

“Slavery is likely to be abolished by the war. The power of chattel slavery destroyed. This I and my European friends are in favour of. For slavery is but the owning of labour and carried with it the care of the labourer, while the modern or European plan is capital control of labour by controlling wages; this can be done by controlling the money. The great debt which capitalists will see to it is made out of the war, must be used as a measure to control the volume of money. To

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accomplish this, bonds must be used as a banking basis. It will not do to allow the "greenback" as it is called, to circulate as money for any length of time. We cannot control them, but we can control the bonds, and through them the bank issue."

Have you any knowledge of that statement?—A. No, but I suppose it might be made by Salmon P. Chase. Who was it made by?

Q. It is an extract from a circular issued by a prominent American banker in 1862. Would you agree that bank loans create bank deposits?—A. Yes.

Q. Would you agree that repayment of bank loans must mean a shrinkage of bank deposits?—A. Yes.

Q. Would you agree that a bank deposit is an effective claim, if exercised, upon goods and services?—A. I do not understand what your sentence means at all. It has absolutely no meaning to me.

Q. You would agree that it might be a claim upon gold?—A. What do you mean by a claim?

The CHAIRMAN: A right, I suppose he means.

By Mr. Irvine:

Q. Yes, the same as you meant when you spoke of the difference between a bank note and a commodity.—A. Do you mean that it rests ultimately—or what do you mean? Try to put it into ordinary English.

The CHAIRMAN: I think he means to ask, if a man has a bank credit, will that give him a right to goods and services.

The WITNESS: He can check out and pay for goods and services.

By Mr. Irvine:

Q. That is all I mean by it. Then would you agree that banks by granting or calling in loans, can vary the effective claims of the community for goods and services?—A. The banks do not call in loans as a rule. Loans become due and are paid.

Q. Would you say banks never call in loans?—A. They call in loans against stocks and securities.

Q. For the moment I am not interested in what they are for.—A. I am, though.

Q. I have no doubt you are. I wish I were interested also.—A. I am because I do not want you to be allowed to convey an erroneous impression from anything I say.

Q. Mr. Chairman, I would be very sorry to have Sir Edmund think I would take such an advantage.—A. I can understand the manner in which the questions are asked perfectly. I do not have any doubt about it.

Q. I have not the slightest doubt either, Sir Edmund, or I would not be asking this question.

The CHAIRMAN: Put your question, please.

By Mr. Irvine:

Q. Would you agree that the banks by granting or calling in loans can vary the effective claims of the community for goods and services?—A. I do not know what the question means.

Mr. GOOD: Why don't you use "purchasing power"?

Mr. IRVINE: If that is clear I have no objection to use "purchasing power," but I think the question is in perfectly plain English.

[Sir Edmund Walker.]

The WITNESS: A peculiar phraseology is sometimes necessary in order to build up any scheme, Mr. Irvine.

The CHAIRMAN: How would it do, Mr. Irvine, to ask the witness what a bank credit is, how it operates, why it is given, and ask the witness to illustrate how it works out from the time it begins until it ends?

By Mr. Irvine:

Q. Very well, but I think the witness has answered the previous question.

—A. Ask your question again, and if you put it in plain English I will try to answer it.

Q. It is contingent upon the previous question which he has answered. To make it clear I must go through this. First, would you agree that bank loans create bank deposits? The witness has answered Yes. And that repayment of bank loans must mean a shrinkage of bank deposits? He has also answered Yes to that.—A. Yes.

Q. Then, would you agree that a bank deposit is an effective claim, if exercised, upon goods and services? Surely if I had a credit at a bank it can buy something?—A. Yes.

The CHAIRMAN: That is answered.

By Mr. Irvine:

Q. That is answered, yes. Then the next question is, would you therefore agree that banks by granting or calling in loans, contracting or expanding credits, could vary the effective claims of the community for goods and services. I do not see how I can express that in any other way.—A. Will you allow me to ask you this: Do you mean that banks would intend by doing so to vary it?

Q. No, I don't mean intention at all; would that be the effect?—A. If the result of a series of loans maturing and being paid, and the conditions being such that the bank did not wish to re-lend that money, it certainly would have that effect, but I object to the idea that the banks do this for an object. That is the way your sentence seemed to mean.

Q. If I may express an opinion there, I do not believe that any part of our present social order is operated with any object whatsoever.

The CHAIRMAN: You mean if there is a contraction of credit?

Mr. STEVENS: Will you repeat that opinion? I did not quite hear what you said.

Mr. IRVINE: I am not sure that I can repeat it. But I can repeat the idea. The witness inferentially said that I was imputing certain ulterior motives to bankers, that they would do certain things with a definite purpose of directing certain matters. In reply to that I said that personally I do not think any section or part of our social order to-day is carried on with any real intention to get anywhere and we are not getting anywhere.

The CHAIRMAN: Then I would like to understand that. Do you mean to say that if there is a contraction of credit, there is a diminution in the exchanges of services and commodities?

Mr. IRVINE: Yes.

The CHAIRMAN: Well, Sir Edmund has said that two or three times.

Mr. IRVINE: Yes, he has answered my question.

The CHAIRMAN: He merely wished to dissent from placing this upon the banks entirely. He says it is due to the community.

[Sir Edmund Walker.]

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Mr. IRVINE: I agree that they are only part of the scheme; I am not saying they are managing the whole thing; I am not suggesting that either; I would have a very small idea of it. You would no doubt agree, Sir Edmund, that manufacturers and retailers will not produce and stock goods except in expectation of an effective claim for them, or demand for them is felt to be sure?—A. Undoubtedly not.

Q. Then you must agree I think that the banks can control the volume of production?—A. No I object to that.

Q. Not intentionally again?—A. You are trying to draw an inference from a previous statement without trying to find out if I make that inference or not. Ask your question and do not add any inferences.

Q. Then I will have to ask the question again Mr. Chairman.

The WITNESS: Ask your second question but put it in the form of a question, and do not say that I must agree with this that or the other thing. I will make my own agreements and inferences.

Q. And of course, I must make mine, Sir Edmund from your answers. The last question which I asked is, would you agree that the banks can control in any sense whatsoever, intentionally or unintentionally, consciously or unconsciously the volume of production.

The CHAIRMAN: Put it in this way: "Do banks control the volume of production."

By Mr. Irvine:

Q. That is what I put first, but I was afraid Sir Edmund might think I meant would they control it for their own purposes?—A. I should say no.

Q. Would you say there is any measure of control at all in the hands of the bankers with regard to production?—A. No, I should say no; no measure of control.

Q. No measure whatsoever?—A. No.

Q. They have nothing to do then with the increase or decrease of business, their actions have no effect upon a greater or smaller production, a greater or smaller purchasing power?—A. Their actions are affected by the actions of those who come to them for business of course.

Q. Would you say what is the general principle which governs your action in granting loans? I have asked you that question before but I did not get the answer that I thought satisfactory?—A. Well, after we pass the question of the credit of the individual, then there comes the question of the prospect which he sets before you; if it is for an annual credit, what is the scope of his business and the probability of his being able to sell the goods he manufactures? There is an argument very often between the customer and the bank as to that, and the extent of credit we give him may be measured or increased or diminished from the credit of the previous year by your opinion of the outlook for trade.

Q. You exercise then a discrimination?—A. We exercise an opinion as to the wisdom of the transaction.

Q. Would you agree then that this power of discrimination in regard to loans, powerfully affects the direction of industrial activity?—A. No, I should think it has the slightest possible effect, because it is very rarely that there is a difference of opinion between a bank and its customers. So it has the very slightest effect.

Q. Would you say it had any effect?—A. Oh, yes.

Q. It would have some?—A. Certainly.

Q. Then would you agree that the nature and variety of production is to a considerable extent subject to the discretion of the banking execution?—A. No,

[Sir Edmund Walker.]

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I should not think so. I should not think the bankers' opinion affected it in any serious measure whatever.

Q. Are you familiar with the statement made before this Committee by Sir Frederick Williams Taylor on behalf of the Canadian Bankers' Association?—

A. I heard part of it.

Q. Would you endorse it?—A. What do you mean, the first statement he read?

Q. Yes.—A. Yes, entirely.

Q. Referring to the banking institution he said:

“Under its operation the savings of the people of the Dominion are encouraged, mobilized, and made available for the agricultural, commercial, industrial and financial needs of the community.”

Would you agree that the natural and legitimate inference from this is that banks merely make available for industrial purposes the savings of depositors?

—A. No, I don't think so. They add to that their own capital and their own reserve. He says those are made available. He does not say there are not other things that are made available.

Q. But you have already agreed, I think, that bank loans create deposits?—A. Yes.

Q. So that you must surely now agree that in encouraging, mobilizing, and making available the savings, namely the deposits of the people of the Dominion, you are partly or even chiefly encouraging, mobilizing and making available something which originates from the banks themselves.—A. That is your own language now, but you put your question in the first place as if that was the only resource from which credit came, and I was correcting you to the extent that I say we have our capital, our reserve and our other assets to lend, besides the deposits we receive from the public.

The CHAIRMAN: How long will it take you to finish, Mr. Irvine?

Mr. IRVINE: Perhaps about fifteen minutes more.

The CHAIRMAN: Then we will meet at four o'clock.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING.

APRIL 27, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

Sir EDMUND WALKER'S Examination continued.

By Mr. Irvine:

Q. Mr. Chairman, I shall be as brief as I possibly can. When the committee rose we were dealing with that statement of Sir Frederick Williams-Taylor. In that statement great stress is laid on a return to something called the gold basis, and it is said: “All nations that participated in the war and that are able to do so, including Canada, are now endeavouring to restore as rapidly as possible their currencies to the gold basis.” Will you, Sir Edmund, explain exactly what you consider is meant by this statement?—A. In what respect?

Q. To what extent, for instance, has Canada made an attempt to return to the gold basis. We have already dealt with what you mean by the gold basis?—A. I think the Finance Minister should answer that. What is involved in

[Sir Edmund Walker.]

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that is the extent to which the Canadian Government has retired those legal tender issues which are not based on gold.

Q. The statement does not really apply to the banks particularly?—A. Not to the banks, no. I think as Sir John Aird said, we could return to the gold basis almost immediately without any great danger.

Q. I understand the banks purchased about twenty-four million dollars worth of gold last year?—A. I believe so, that is to say brought into Canada that much gold.

Q. I think Sir John Aird said that twenty-four million dollars of gold was purchased by call loans?—A. No, purchased is not the right word to begin with. That much I think was shipped into Canada by American banks, because at that moment there was no premium on New York funds, that is to say the American banks chose to make deposits with banks in Canada by sending in American gold, and by the Canadian banks who brought in a certain amount of gold. It was not purchased, but was got from their own funds in New York.

Q. You say the banks did not purchase?—A. I don't know what you mean by purchase.

Q. I want to know how you got the gold?—A. They are on a gold basis there. We drew the gold from their Treasury with the ordinary clearing house funds in New York, and remitted the gold to Canada; and part of the gold came through American banks choosing to remit gold to Canada.

The CHAIRMAN: They exchanged some of their assets for gold.

By Mr. Irvine:

Q. I understood Sir John Aird said that call loans from Canadian banks were taken from London, Eng., and exchanged in New York for gold.

The CHAIRMAN: London or New York.

Mr. IRVINE: I proved to him it did not come from New York, because the call loans in New York had been increased?

WITNESS: That did not prove it. If you look up his record, and see; I am telling you the way I am perfectly certain the gold came. Of course you are connecting things up that are not in our minds connected.

Mr. GOOD: There was a little confusion at that time, and I think perhaps the record is faulty.

Mr. IRVINE: I would not blame the record; there may be more at fault than the record.

WITNESS: Have you got Sir John's record?

The CHAIRMAN: Mr. Irvine wants to know how you got the gold?

WITNESS: The American banks who wished to create funds in Canada found it was cheaper to remit gold to Canada than to remit it in any other way; that was a part of it. Part of it was because there was no exchange on New York funds, and we brought in ourselves. We drew out of our funds in New York, and we got the funds out of our own bank account from the American bank.

Q. I was interested to know to what extent anything was exchanged for gold, and what that thing was, in what form was it?—A. If we have some money at our credit with the bank in New York and choose to go to the bank and ask for gold we can get it, and we did that, and sent it to Canada.

Q. That would be buying gold?—A. No, getting our own money in the shape of gold instead of in the shape of paper, and sending it to Canada.

Q. What form was your money in in New York?—A. At our credit in the bank; we choose to have it paid in gold.

Q. What was it originally?—A. I don't know what it was originally, cash that came into the bank in any way you please, countless ways.

Q. It would not represent deposits of the people in Canada?—A. No, it might have represented that away back in the original, but suppose people in Canada had occasion to remit money to New York, if that money came to us it would go our credit in the bank which we pass through our clearings.

Q. You are satisfied with your definition of the function of a bank as an institution for lending money and for saving money or protecting the money of depositors?—A. Yes.

Q. You would not enlarge on that at all?—A. No, I said there were several functions, and those are some of them.

Q. I am not quite satisfied with that definition, Mr. Chairman, because it does not include the real function of the bank in my estimation, which is or has at least something to do with the production and distribution of goods. Would you agree that the financial system ought to be a bridge between the productive system and the consuming needs of the public?—A. A financial system ought to be a system for giving credit to people of sufficient standing or with sufficient collateral to borrow money, to take the money of people who desire to have it saved, and lend it to others—

Q. You distinctly stick to it on the basis of dealing with money as a commodity?—A. Not a commodity; I decline to use it in that way.

Q. Your declining the use of it would not preclude the real meaning?—A. I think it would not preclude the meaning; it would preclude your peculiar meaning.

By the Chairman:

Q. Ultimately, Sir Edmund, the bank's operations assist in the exchange of goods?—A. Yes.

Q. Commodities?—A. Yes, but that is not our function.

By Mr. Irvine:

Q. I just want Sir Edmund's opinion that it is not the function of the financial system to act as a bridge between the purchasing power of a country and the consuming needs of the public, that is not its function?—A. No, it incidentally may do that, but that is not its function.

Q. If it does it at all it would be incidental?—A. Yes.

By the Chairman:

Q. Sir Edmund, for my own information, is it not a little more than an incident. If the bank assists in the cutting down of trees and their conversion into lumber, and the sale of the lumber by the manufacturer to the public, is it not a connecting link between the producer and the consumer?—A. Absolutely, but I am unable to agree with the assertion that it is the function of the bank to do that. Someone else borrows the money to do that work, it is his function to cut down the trees; our function is to lend him the money; our function is not to produce the goods.

By Mr. Irvine:

Q. The function of a bridge is not to produce the goods but to convey the goods. I use that as an illustration. Would you wish to correct that, that the bank is to the producing and consuming of a thing as the bridge to the traffic that goes across the river.—A. The business of a bank is to lend money to people who have sufficient security. What they do with the money is their business. It is not our function to direct what that money shall do.

[Sir Edmund Walker.]

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Q. Then I will proceed with another question or two along this line. Would you agree that the limit of production and consumption in any country must be the limit of purchasing power?—A. Will you repeat that please?

Q. That the limit of production and of consumption in any country must be the limit of the purchasing power available?—A. I should think so.

Q. Then would you say, I think you have said it, that the credit instruments in Canada or in any country are supposed to be based on gold? Is that correct?—A. I say gold is the basis.

Q. That is all I want. Of credit. Is it so or is it not that gold is relatively a diminishing quantity? That is, through scientific processes the volume of production, if I may put it in that way, has increased to a much greater degree than gold has, relatively.—A. It has from time to time done that, and the reverse.

Q. Well, then, if gold as the basis of credit has decreased very greatly in comparison with the extended trade through scientific progress and if purchasing power which must be embodied or upheld by this gold basis is the limit of business and the limit of production and consumption, would you not say that the finance system which handles all of our credit instruments has something of vast importance to contribute to the producing and consuming functions of society?—A. I am afraid you will have to reduce that to a question. You have made a great number of statements, and I do not know which you have in mind for me to answer.

Q. I will see that you get them all if you put it in that way. I was merely trying to save time. I can make as many questions out of it as you wish. You have already admitted that the limit of the country's production and consumption would be the limit of its purchasing power. You have admitted that gold is the basis of all credit which ultimately is the purchasing power of any nation. You have admitted that gold has decreased relatively when compared with the tremendous increase in production.—A. I have stated that gold has occasionally decreased and has occasionally increased relatively to the amount of credit.

Q. I am not now speaking relatively to the amount of credit, Sir Edmund. I am speaking of gold as the basis of credit in relation to the increased volume of business caused by increased production, through machine application.—A. I have stated that gold at times in the world has increased relatively to the total amount of credit, that is the transactions; and at other times, it has decreased. It was sufficient immediately before the war for the purposes of the world.

Q. Let us get at it in this way. What possible relation can there be between the quantity of gold in this or any other country and the maximum capacity of the productive system?—A. I have explained over and over again its relation to credit. I am not to explain its relation to the productive system. I have stated that it has a relation to credit of somewhere about ten per cent, and that that was the condition we were in before the war.

Q. But you say it has no relation to the productive system?—A. Except to the extent that credit may have relation to the productive system. The productive system does not entirely come from credit. It comes largely from capital employed for productive purposes. The amount borrowed is only a part of the capital necessary for the productive system.

Q. You would not confuse capital and credit in this regard, I presume? We will have to follow this just a little further. The quantity of gold, as I understand the witness now, in the world, has no relation to the maximum capacity of the productive system?—A. I did not say that at all.

Q. Well then, Sir Edmund, I would like to know what you did say?—A. I said that the gold had a relation to the amount of credit that could be extended to those who produce goods in the world, but there is an enormous amount of

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capital and of plant that is able to produce goods without reference to the gold in the world or the credit in the world.

Q. Gold has a relation to credit and credit has a relation to the productive capacity of society?—A. Yes, another relation altogether.

Q. Well, that is a very important admission, that credit has a relation then to the productive capacity of the world, which gold has not, and that gold is the basis of credit.—A. That is also a statement of your own.

Q. Well, of course, Mr. Chairman we will leave the evidence to speak for itself later if I am assuming something from it that is not legitimate. I think Sir Edmund said yesterday that currency is always adequate to meet the trade requirements of the trading community?—A. I said the currency that the Canadian banks issue is always adequate. I did not say currency was always adequate. I said the bank currency issued by the Canadian banks is adequate.

Q. And you had in mind not all credit instruments?—A. No, I mean the note issues of the Canadian Banks.

Q. Would you say that the credit instruments now controlled by the Canadian banks were insufficient to take care of all the business necessities of Canada?—A. Yes, I mean now of course. When you say that, I mean the clearing house items as well as the bank notes. We could not take care of all the business of Canada with the bank notes alone.

Q. I am not confining it to the bank notes. Would you say that in your opinion trade is as great in Canada as it might be if the people had more purchasing power?—A. No.

Q. It could be increased by the increase of purchasing power?—A. Yes.

Q. Would it not then be a good thing for the Canadian banks while they have lots of money to lend as you said, to increase the purchasing power of the people of Canada with a view to increasing business?—A. How do you mean, increase it?

Q. How could you increase it?—A. I don't know. You are asking me whether we should increase it. I ask you how? How do you mean? How should we increase it? In what way? By making bad loans?

Q. I will get the answer from yourself, Sir Edmund. In another statement of yours in the "Monetary Times" of January 12, 1923, speaking of Europe's buying power, you have said:

"No thoughtful American fails to see what the buying power of Europe means to his country. The possible result of the complete collapse in the power of Europe to provide the credit or the cash for this purpose may be judged from recent estimates, which seem to show that since the war ended the United States has enabled Europe, by new loans, by credits, or by the re-purchase of American and the purchase of foreign securities, to buy to the extent of a billion dollars yearly in addition to purchases paid for in actual money or in European goods."

Does that not imply that in order that Europe might be able to purchase from America, America extended loans to Europe?—A. Yes, private individuals did. Not banks at all. People in the markets of the United States bought bonds of foreign countries and helped out their trade in that respect.

Q. In that case perhaps it would have been better if you had spoken of individuals instead of saying "The United States has enabled."—A. I was speaking to intelligent people.

Q. Is it so that transactions of this character are carried on by the banks of a nation?—A. By private banks, banks of finance.

Q. You are aware I presume that international financiers offered to lend Germany an enormous sum last spring, if Germany would stop issuing paper money at home. If they had done so, would that not have meant that Germany

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would have increased her credit in the eyes of the world and be in a position to purchase from other nations?—A. Yes.

Q. If that can be done between nations, is there any reason why it should not be done within a nation?—A. It is not done by joint stock banks who are the custodians of the people's deposits, but by financial banks, who are lending money for the public who choose to buy securities from these banks. You have heard us arraigned this morning for selling securities to the public, but that is done by bond houses, who buy securities and sell them to investors. We are the custodian of the money of depositors; we do not buy the bonds of Germany or other foreign countries.

Q. Do you mean by that, that the real function of your banks should be that of a clearing house itself?—A. Our function is the function that has been absolutely followed by British jointstock banks more than by us down to the war, of being trustees for the deposits of people, and of lending them out upon securities which could rapidly be turned into money, so that their deposits could be repaid. You are mixing us up with another kind of bank altogether, which you probably understand is quite different in its functions.

Q. I am speaking of the financial system in all its bearings. There may be certain phases of that the bank does not deal with.

The CHAIRMAN: You are asking if nations lend to nations?

Mr. IRVINE: Mr. Chairman, I understand when a nation lends to a nation it is done through its financial agencies which exist.

The CHAIRMAN: Ordinarily they do not do that. It happened during the war. But Sir Edmund points that when it is done, it is done through financial houses, and they borrow the money from private individuals.

Mr. IRVINE: It was the leading bankers of the world that made the offer to lend to Germany.

The CHAIRMAN: But those are individuals.

The WITNESS: It was not London jointstock banks like Lloyds and people of that kind. It is done by people who sell securities to the general public.

By Mr. Irvine:

Q. At all events the point I am trying to get at is that, as Sir Edmund has admitted, an increase of purchasing power in Canada or any other country would increase business and increase the consuming power of the people, and hence increase production and so forth. Is there any way or have you any concrete proposal in mind by which it is possible to increase the purchasing power of people in Canada through your banks?—A. I mentioned this morning how the selling power of Canada could be increased by making our goods at a price and of a quality that would cause them to be purchased by foreign countries. There are many foreign countries that would purchase these goods; it is the quality in the goods and economy in making them that would sell the goods.

Q. Do I infer from that, that the reason why the Canadians are not consuming more to-day is because the quality of the goods is not what they want?—A. You are talking about our selling goods in foreign countries.

Q. No, I am talking of selling goods anywhere.—A.—And of lending them the money with which to buy them.

Q. But the principle involved in that, I am speaking of Canada as a nation.—A. Then put your question again please.

Q. My question is: Have you any concrete proposal in your own mind how the banks in Canada could increase the purchasing power of the people of Canada?—A. No, that is not our function nor our business. I don't know any way that we can do that, and I know of no way of doing it except the usual way

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of hard work and economy and learning how to make goods cheaper than we have made them heretofore.

By Mr. Good:

Q. Pardon me a moment. If Mr. Irvine would give a concrete example of what he has in mind, I think the meaning would get across a good deal better.—A. It is very difficult to get it across.

By Mr. Irvine:

Q. I don't think I have any difficulty in getting it across?—A. The difficulty is in trying to make words mean what they do not mean.

Q. Sir Edmund gets it before it gets across and then he knows how to handle it, so there is no need for further explanation.

The CHAIRMAN: But, Mr. Irvine, I would like to know what you mean when you ask if a bank could do anything to help consumption or to extend consumption. You might as well say to increase production, because everyone is a producer and a consumer. If he produces a given quantity, he consumes a given quantity. If he produces a bigger amount than he is consuming at the time, he has the capacity of an extended consumption.

Mr. GOOD: In that connection let me suggest that something of the same sort as was suggested by Major Douglas the other day might be submitted as a specimen, so we would know what was in mind.

Mr. IRVINE: Mr. Chairman, I would willingly give a lecture on this but I do not think this is the proper place to do it.

Some Hon Members: Hear hear.

Mr. IRVINE: Inasmuch as Sir Edmund Walker has refused to admit that the function of a bank is to act in the capacity of bridge between production and consumption, my question would be entirely irrelevant.

The CHAIRMAN: Well, that is argument and you can use it later.

By Mr. Irvine:

Q. I had to put up an argument in order not to make a speech, that is all. My last question is this: would Sir Edmund say that at the present time the Canadian banks are performing the highest possible function for the people of Canada, and if not has he any concrete suggestion as to how that service could be improved.—A. I believe the Canadian banks at the present time are serving the people of Canada as well as any banking system in the world. We are not the cause of the misfortunes that have come to a great many people in Canada. The misfortunes will be corrected probably by some years of economy and hard work. I do not know how the banks can do anything more than to preach annual sermons and give objurgations as to the necessity for doing that; we have no patent process to cause people to buy goods if they have not the money, nor to cause people to produce goods that they are afraid they cannot sell.

Mr. IRVINE: Then, Mr. Chairman, I wish to thank Sir Edmund for his kindness in answering my questions. I have nothing further to ask him.

By Mr. Spencer:

Q. Mr. Chairman, I would like to ask Sir Edmund Walker a few questions, simply for information's sake. Referring to the revision of the Bank Act in 1913, did you state that if Canadian gold were coined it would simply lie idle in the vaults and that only a few officials would see it.—A. Yes, practically that is the idea.

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Q. In that statement you admit that you do not think the people will ask for it?—A. Not for Canadian gold.

Q. Referring to a very interesting book that has been written by Sir Thomas White, I would like to touch on a few points he mentions and ask you some questions on them if I may. On page 10 in referring to the passing of the Finance Act, Sir Thomas said:—

“The placing of the Government behind the banks by the provisions for making loans to them in Dominion notes against securities at once restored confidence.”

Q. I understand from this statement that the basis of our currency was changed from that of a gold basis to the assets of the Dominion. Was this correct?—A. Gentlemen, I was called up from my home on Lake Simcoe on the 3rd August to go to Ottawa to meet the Finance Minister with other bankers, to decide how we could prevent the people in Canada from demanding gold for all of their deposits and hoarding it. The legislation of the Finance Act was primarily established for that purpose, and it was arranged that afternoon, by Order in Council, that the Canadian banks could pay their obligations in their own notes. The Government was afraid here, as they were in England, that if the banks once opened their doors everybody would rush forward for their deposits, would demand gold and hoard it. Sir Thomas White's meaning is not that the support of the Government is as good or better than gold, but having established that we could open our doors quite safely, knowing that as some of the people would if they could get gold in their possession and hoard it, whether anybody else was wanting it or not. We had prevented them from doing so.

By Mr. Woodsworth:

Q. Had there been a general demand for gold, would there have been a sufficient supply to give the people?—A. Of course not.

Q. According to the gold redemption theory there should be enough on hand to supply all who asked for it?—A. No. No one has ever pretended that there would be enough to supply all the wants. The suspension of gold payments must take place in any country if the alarm of war is so great that practically 60, 70 or 80 per cent of the depositors want their money at the same time.

By Mr. Spencer:

Q. At the moment the Government came to the assistance of the financial institutions there was no panic and confidence was restored?—A. Yes. We were thinking how we were going to fight the war.

Q. I understand we are still on the same basis now?—A. Yes.

Q. On page 14 he says “arrangements were made with the Canadian banks to maintain liberal credits to their customers in order that general business might not be checked.” This statement, I take it is an admission that the banks have the power to inflate currency if need be?—A. It is not inflation of currency. That is credit.

Q. I take it if a larger amount of money is given by a bank it is a means of inflation?—A. It would be an inflation of the credit, not the currency. As a matter of fact, there was no fear of our getting a larger amount of money than was necessary. We were as busy as we could be arranging to feed the armies of the world and to supply them with munitions. Peoples' fears were that bankers might become timorous and not be as able to operate as usual. That is what Sir Thomas White had in mind.

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Q. Sir Thomas White said on page 17, referring to the purchase by Britain of Canadian products: "In a word we paid the cost of our military operations by our production during the war", and again on page 59: "there is real truth in the statement which has been freely made by economists that nations pay for wars as they go along". Do you agree with that statement?—A. I understand what he means. He means by nations paying for the war as they go along, that Canada for instance paid for its cost of the war as it went along, but it paid for it by the production of the necessary things by some part of the people. The payment for that was by bonds purchased by some other part of the people. If we had to secure the money with which to pay for munitions of war from another country, Canada would not have paid for the war, but because we paid it by money secured from our own people, we did pay for the war.

Q. On page 59: "burden of the debt created is passed on to future generations as a legacy and reminder of the waste of war".

The CHAIRMAN: Is that explanation satisfactory?

By Mr. Spencer:

Q. I was going to ask you, Sir Edmund, if the war had already been paid for, why should a debt have been created. I think you have answered that.

The CHAIRMAN: You read the question and then you read the answer. Sir Thomas has made that very clear.

By Mr. Spencer:

Q. I would like to ask Sir Edmund this question. I think it is a pertinent one, because we are looking for information. Do banks—I do not say Canadian banks—I am talking of banks the world over,—do they benefit through the increased circulation of credit caused by war?—A. That will depend of course upon the margin of profit that the banks gained by their operations. If the margin of profit remained the same on the larger volume of business, of course they would gain more by the larger volume of business, no matter whether it was war or peace or anything else. They do not gain specially by the fact that they are war expenditures. They gain by any volume of credit passing through their hands.

Q. On page 25, he says: "banks were not burdended to the detriment of Canadian business in regard to loans". He says: "the result of this policy was that after the Armistice the liquid resources of Canadian banks were available for the business of Canada." If this was so, why was there any need for deflation after the war?—A. Deflation, as I have explained to this Committee several times, was a thing which followed a decline in prices and a decline in production. Nobody deflated anything by any intention to do so. It deflated itself by the settlement of old transactions and no new transactions taking the place of the old ones.

Q. On page 44 he says: "referring to the war wealth of the United States, from the standpoint of many, they almost held the world in fee." Do you agree with that statement?—A. They have a very dangerous amount of the world's gold at the present time, and they are the creditors of the world to a large extent.

By the Chairman:

Q. I suppose the great danger in the United States is in its having so much gold that they might use it for improper fallen credits?—A. That is the menace to the rest of the world. They have an undue amount of gold for the natural credit operations of the United States.

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Q. They have more than they want, and the danger is that some of the financial institutions might take advantage of it and extend credit and practically cause a collapse?—A. You must remember that during the war Sweden was a country which refused to receive gold for its products, because it wanted raw material to make more goods, in order to make more money. During part of the war it would not take gold at all. The United States has more now than it needs for its credit structure.

By Mr. Spencer:

Q. Did Sweden succeed in not having taken gold?—A. She wanted from the rest of the world certain kinds of raw material to make her goods.

Q. Raw material was more important to her than gold?—A. Raw material was more important to her than an excessive amount of gold.

Q. It might be possible for any other country to consider raw materials of more value than gold?—A. Surely. The United States would at the present time.

Q. Do you agree that the Treasury Board under the War Finance Act is functioning satisfactorily?—A. Yes, I do.

Q. Has the Board refused at any time to discount paper for the Canadian banks?—A. Not for the Canadian Bank of Commerce. I do not know anything about other banks. I could not answer.

Q. Have you on hand now considerable securities that would be acceptable to the Treasury Board?—A. We have over \$150,000,000 that would be acceptable.

Q. Does this arrangement in your opinion constitute a sound financial system?—A. It is a financial system created by the war, and it exists because we have not gone back to the gold basis. It is satisfactory to that extent.

Q. Otherwise it constitutes what might be called a "national system," where, say, the Government receives part of the interest and the banks, part.—A. It is not a system at all. It is a substitute which we have to bear until we have escaped the results of the war.

Q. I understand in your opinion we should return to a gold basis?—A. I think so, as soon as possible.

Q. What effect if any would a return to the gold basis theory have on our national debt?—A. I do not think it would have any effect.

Q. What per cent of Canadian bonds issued during the war are in the hands of the public?—A. I think that the entire issue—I do not know whether it is 80 per cent or 90 per cent, but at least a majority of the bonds issued in Canada are in the hands of the public. I do not know exactly what you mean by the public.

Q. I mean outside the banking institutions?—A. Banking institutions do not own them at all.

Q. Do not banks buy bonds?—A. Not Government bonds. They buy them to sell again. The thing we have occasion to be proud of in Canada is that we financed the war without tying up the liquid securities of the banks in Government bonds at all. We are the only country that succeeded in doing that.

Q. Do not banks in this country own Government bonds?—A. I do not know that the Canadian Bank of Commerce owns any at the moment. If we do they will be sold again.

The CHAIRMAN: The public has got them.

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By Mr. Hanson:

Q. I think you said a moment ago that we should return to a gold basis. I should like to ask you if you think the time has arrived when we should return to it?—A. I heard Sir John Aird here say he thought we could return now. I think the same thing. The Bank of Montreal, who know the Government's finances better than we do, might think differently. I would like to recall the fact that from 1861 to the spring of 1879 the United States was off the gold basis. During the last two or three years of that time the question of whether it was not the time to resume was discussed every day and several public men said, and possibly writers said, "The way to resume is to resume." At a certain stage it is a psychological matter. It is a question of whether you could maintain the gold standard. Sir John thinks we can maintain it. We are not I think far from the moment when we can return to a gold basis.

Q. Are there any other observations you would like to make in regard to this inquiry? Have you anything in mind?—A. I should like to say one or two words at the end.

By Mr. Kellner:

Q. Mr. Chairman, the question has been largely on high finance for the last few hours, but I would like to ask one or two questions on common banking principles. I think it would probably interest some members of the Committee. Sir John Aird, in speaking the other day, made a statement that after the war was over, you had a large number of men to take care of. I would like to ask you where you opened the branches to employ those men?—A. All over throughout Canada. Largely in the west.

Q. Are the most of them still operating?—A. Yes. Some of them will have to be closed undoubtedly, because business is less good than we hoped it would be.

Q. Would that necessitate the raising of interest rates, to pay for the operation of these branches?—A. We have not raised interest rates. Sir John told you quite frankly that it had cost us an enormous amount of money to do our duty by these men. 1,700 men went to the front, and 1,100 were back in the service, and we promised we would find positions for them.

Q. When the majority of these banks were opened, they were lending money at 8 per cent. Since that time, many of these loans are paying 9 per cent?—A. They are paying 9 per cent because of the character of the security.

Q. One witness said the other day that some of the loans which were paying 8 per cent a year ago were now paying 10, and he said it depended somewhat on the condition of the man's team.—A. Personally I am not in the habit of looking at teams myself, but I am sure our managers do. I am sure that looking at a team would not influence the question of the rate of interest, but it might have an influence on the question of his being a good farmer.

Q. If a man had been through a period of drought, that might have something to do with the appearance of the team.—A. Yes, it might. I doubt if anybody has been more kind to those who had gone through the drought than the Canadian Bank of Commerce.

Q. There is also a rumour that it is the practice to foreclose on certain individuals who are carrying loans on which there is some danger of realizing, while if another man is in deeper they will extend him further credit. Do you think that is the policy of the bank?—A. Not the policy of my own bank. We did not make our policies in community with other banks. It is certainly not our policy.

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By Mr. Hughes:

Q. I will ask two or three questions that are stereotyped, and they might in a sense appear foolish, but I hope you will not so consider them. The first is, is the Canadian banking system essentially sound in principle?—A. I have already said to this Committee that I believe it to be the best banking system in the world. I say that with the knowledge that that is an extraordinary statement to make, but I am prepared to stand by that statement.

Q. Therefore it is essentially sound?—A. Yes.

Q. Is it well suited to the needs of commerce and industry of the community?—A. I think that the Canadian banking system, with its note issues, its credit system and Section 88, which has been so much discussed, is able to extend safely more credit to a new country than any other system of banking that has been devised. I know, as a matter of fact, that it does extend larger credit.

Q. I think nine-tenths of the business men of Canada will agree with these answers, and I might say I also agree.—A. Thank you very much.

Q. However, is it just as well suited to the agriculture needs of the country?—A. We believe it is. We have also frankly admitted that the United States is trying an experiment in banking, between land banking and commercial banking, and it will be interesting to watch the records for a year or two of these banks lending to farmers by long time loans. I want to say, as far as we are concerned, we have lent money on pretty long terms. It amounts to long terms when the short terms are put together. We do our best to fill the gap between land banking and the wants of the farmer.

Q. There are some men in Canada who do not think banking is as well adapted to agriculture as it is to commercial business.—A. If so, something different from the commercial bank would have to be created; some other kind of institution.

Q. Notwithstanding the soundness of the system, some failures have taken place?—A. Yes.

Q. Involving in some instances fairly large losses to the shareholders?—A. Not to the creditors but to the shareholders.

Q. Would you wish to say what was the cause of these failures, or the outstanding cause of these failures?—A. Of course the only failure during the last ten years, except a trifling institution that should never have been started, the Bank of Vancouver—the only other one was the Merchants Bank, which was not a failure. It caused a great loss to the shareholders.

Q. The Sovereign Bank?—A. The Sovereign Bank, which failed more than ten years ago, and the Merchants Bank. In both cases it was due to large loans to stock brokers on industrial securities, which never should have been made.

Q. I think Sir John Aird the other day in giving his evidence on this point said that bank failures—he put it in two words—were due to bad management. Would you agree with that statement?—A. I agree entirely.

Q. Well now, would you tell me who are the bank managers, what are their official positions, the men who manage the banks?—A. Do you mean the titles of the executive officers?

Q. No; the positions they hold?—A. The General Manager of the Bank, Sir John Aird, is the executive head of our bank.

Q. I will put it in another way; would the directors be managers of the bank?—A. No, they are not managers of the bank.

Q. They could not be called managers?—A. No.

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Q. Only the executive officers would be the managers of the bank?—A. Yes.

Q. What are the general duties of the directors?—A. The ordinary directors of a bank assemble, let us say, once a week and have explained to them the credits that are to be granted. In my own bank every particular loan of any kind, even the purchase of large foreign bills of exchange, everything of that kind, is explained at length to the directors; the balance sheets of borrowers are commented upon; but the directors of course are influenced by the fact that all those loans come to them through a credit department in which there are very many able officers.

Q. Do not the directors exercise a good deal of control over the executive officers, or could they not?—A. They could, yes. In small banks perhaps they do where there are not many officers. I should not think in the large banks which have many executive officers that they do.

Q. In view of the experience that the bankers have gained during the last number of years, and in view of the Bank Act that has been amended and improved a good many times?—A. Yes.

Q. Were some of these improvements suggested by yourself?—A. Yes.

Q. Is it possible for a bank to fail in Canada providing the directors and executive officers—I could not say other executive officers, could I?—A. No, the executive officers.

Q. Providing the directors and executive officers do their duty and are capable men?—A. Oh, no, I think not; I think it would be impossible for a Canadian bank to fail if the directors and the executive officers do their duty.

Q. Now, if a failure should occur in the future it would arise from the fact, it would be caused by the fact that the directors and the executive officers—it is not right to use the word other?—A. No, the executive officers.

Q. The directors and executive officers have failed in the discharge of their duty?—A. Yes.

Q. Then in that case would it be proper that the directors and executive officers should have further liability than the ordinary shareholder who has no voice in the management, and who perhaps might be called an innocent shareholder, and a small shareholder?—A. There was a bank in Canada on that basis at one time, an old French bank, and that has been the case in banking in early days.

Q. Unlimited liability?—A. Yes.

Q. Unlimited liability I meant?—A. And there have been banks in the old days, in the early history of the American banks where the directors had a larger liability than the ordinary shareholder. Of course one of the difficulties is you cannot get first class business men to act as directors under that; you narrow greatly the number of men who will be directors.

Q. If there is no possibility of a bank failing, if the directors and executive officers do their duty?—A. Don't let me be misunderstood; the executive officers might fail to do their duty and not the directors. I want them to be regarded as two separate things. If the bank failed the executive officers might need to be punished. The President might need to be punished, but the Board might not need to be punished at all, I mean among them all there is somebody that should be punished.

Q. In other words the executive officers could fail in the discharge of their duty and the directors be innocent?—A. Yes.

Q. I have submitted an amendment to the committee at the request of some shareholders who have suffered losses, and in their opinion and in my own I may say, it appears to me just that if a bank gets into trouble because of the

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failure of the directors—I thought they had greater responsibility, greater power than you have indicated—and the executive officers, that it would be only fair if these men are shareholders that they should have greater liability than the ordinary shareholder and suffer greater penalties?—A. Well, gentlemen, if I might say that which I would rather not say, for I would rather not comment on the Merchants Bank failure, I would just say this: the public demand when something of that kind has happened that somebody should be punished. In previous bank failures that have taken place in Canada somebody has been punished, and in this case nobody was punished, and that is what after all gets under the skin of most people. Now, it should be the guilty person that is punished, it should not be the directors who have attended meetings regularly, and who have listened to all the evidence that has been put before them, and have done their duty; it should be the particular people who knew that they were making false statements to the public.

Q. Or improper loans?—A. Yes, and nobody in this case was punished, and that is why there is so much feeling, I suppose. I would like to see the Act so drawn that the Act will punish guilty knowledge, but I would be sorry to see the Act so drawn that it punishes people who have done the best they could and who are not guilty, and thus make it difficult to get good men to serve, because after all a Board of Directors is a much more vital thing to a bank than many people might suppose. You cannot get strong independent men to sit on a Board for the little fees they get.

Q. Would you approve of this, the executive officers who may be shareholders, and who generally are shareholders, of attaching a greater liability to their shares than is attached to the shares of the ordinary person who is not connected with the management of the bank at all?—A. I do not think that is the way to get at the difficulty. I believe an examination in each case would find out who was guilty and who should be punished.

Q. You do not approve of putting anything in the Act?—A. The Act can be so framed that guilt will be the cause of the punishment.

Q. According to your statement, sir, you have said that it is practically impossible for a bank to fail if the directors and executive officers do their duty?—A. If both of them do their duty.

Q. It is impossible if the executive officers do their duty, then would not it be a reasonable form of arrangement to hold them to a greater liability on their shares?—A. I am again thinking of getting people to fill these places with that sort of thing hanging over their heads.

Q. You think there would be some difficulty?—A. Yes. I do not think that is the way. I think what we ought to do is to remorselessly punish the person who is guilty, and not try and punish those who after all have done their best.

Q. The trouble into which the Merchants Bank got injured the public confidence to some extent?—A. Yes, undoubtedly.

Q. And it is very desirable that the banks have the confidence of the public?—A. Yes.

Q. Would the willingness of the directors and the executive officers to assume greater liability than attaches to their position now, help to restore that confidence that is in you?—A. I think it would be a very hard price to ask them to pay for no fault of others, and no fault of the system, because no banking system in the world can prevent things like the Merchants Bank affair.

Q. You have already stated it would be a fault of theirs and a fault that would attach to nobody else if a failure took place?—A. I say no fault of those who have not yet failed.

Q. I have proposed another amendment, that is that a transfer of stock made by a director or executive officer within a year of the failure of the bank will

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not relieve that official from whatever liability attaches to his shares, will not relieve the transferrer from whatever liability would attach to his shares if the transfer had not taken place?—A. You are again making a penalty to a man to be a bank director at all, which I do not believe is wise.

Q. I believe in a statement you made in that pamphlet you issued, you said that a transfer taking place within sixty days of the failure would not relieve the transferrer?—A. No.

Q. I am not quite sure that that is correct, but I was only extending that principle for twelve months?—A. Extend it for everybody; don't extend it for the directors alone.

Q. If the principle is in the Act now, if a transfer made by a director or executive officer within sixty days of the failure of the bank will not relieve him of his liability—you say the principle is there now?—A. Quite so.

Q. Do you think that twelve months would be too long a period?—A. I would think that you had better not differentiate the poor director from any other shareholders, if you want shareholders to become directors.

Q. It applies to all now?—A. I do not care if you make the sixty days longer, but apply it to everybody.

Q. The proposal is to make it twelve months?—A. I don't think you had better make it twelve months. Make it longer if you like, but let its application to directors be the same as to everybody else, because mostly directors are honourable people.

Q. Apply to the directors and executive officers?—A. No, apply to everybody; do not make it difficult to get directors. I can assure you it is not easy to get good directors.

Q. Is it good banking to give capital to men to manage their business?—A. No.

Q. Of course the banks do not speculate at all?—A. No, they should not.

Q. Is it good banking or proper to lend money to men who speculate with it, or for the purposes of speculation?—A. No, emphatically not.

Q. If banks do not exercise continuous care, might not the funds that they loan be used for speculative purposes?—A. Yes, it might; we do exercise care—

Q. And that is done?—A. That is done by us, I mean they exercise a perpetual care.

Q. Still banks loan money to individuals who use the money for speculation?—A. Not consciously we do not; we do not do it knowingly.

Q. Because my idea is, the general idea I think is, or the idea in this committee is, that the banks are not generous enough or liberal enough in making loans. I hold a different idea, I don't know whether it is correct or not. I think if the banks have sinned at all, and I suppose they have?—A. They have, undoubtedly.

Q. It is in not being careful enough in the loans they make?—A. I should think they are more open to blame that way than the other.

Q. And that the funds they loan are sometimes used for speculative purposes, and that speculation begets inflation?—A. Hear, hear.

Q. And inflation is invariably followed by deflation or reaction, and in that way perhaps the banks may have contributed something to the inflation periods naturally followed by reaction?—A. I would like to say something there. The practice of my own bank for very many years has been to take the balance sheet of any customer, and immediately analyze it, get the slow assets, the fixed assets, the property, plant, and anything of that kind against any slow debts such as mortgages and set the quick assets, that is the merchandise for sale and the bills receivable, against the debts to the bank or to trade people, and we expect

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the customer when that is done, to show such a surplus of quick assets over his quick debts that he can pay his account off once a year; that is the ideal account. When things are at their best a tremendous proportion of the customers of the Bank of Commerce who borrow large sums of money for operating various businesses pay their loans off once a year, but when we come to a time like the present you will find the number who do that is very much less than it was two years ago. But that is the ideal. In Major Douglas's book he practically spoke as if the whole money necessary to operate a plant after the plant was built, was provided by the bank. I know of no such banking; we only lend the money to carry the so-called peak. We do not lend it to build factories, and we do not lend it to any class of men whom we know speculate.

Q. The best loans, I presume, and the loans the bank wish to make, are loans against things that actually exist and for which there is a demand?—A. Yes.

Q. And will finance themselves?—A. Quite so.

Q. But banks make loans on other forms of security. That being the method or the security on which banks wish to make loans, things that are in existence and for which there is a demand, which will be sold soon and of themselves pay the loan; that being the business that they wish to do, and the far greater part of their business, do we not come back to what I suggested in my third question, that the banks are not so suitable to meet the agricultural needs of the country as they are to meet the commercial and industrial needs of the country?—A. We have explained a good many times to this committee that we exercise a very much wider discretion towards farmers than we do towards producers or manufacturers, and lend on longer accounts.

Q. Or commercial men?—A. Yes, or commercial men.

By the Chairman:

Q. Did you hear Major Douglas's statement here?—A. Part of it; I read his two books.

Q. I think the members of the committee would be glad to hear you and to see what you have to say about his suggestions.

By Mr. Woodsworth:

Q. Before going into that, might I ask a question relating to a previous question; first with regard to Mr. Hanson's question and the possible return to a gold basis, would that involve further deflation?—A. Not necessarily; I don't think it is necessarily connected one way or the other with deflation, except that the Dominion Government has issued legal tender notes, and should retire those to a certain extent before we return to a gold basis.

Q. You do not think it would involve any?—A. Deflation on the general public credit?

Q. Yes?—A. No, I don't think it necessarily—indeed I am sure the United States returned at a time when there was anything but deflation.

Q. And the other question I wished to ask was, as I understood Sir Edmund, he suggested that the banks have plenty of capital at the present time if there were adequate securities available?—A. Yes.

Q. It has often been said that we need to import more capital from the Old Country. If the banks have sufficient capital for loaning or sufficient money for loaning, would the solution for our economic problems lie in the importation of more capital to Canada?—A. The capital that is often spoken of as being desirable to import from other countries, or secure from other countries is for fixed capital, in order to build public or private improvements; not for the purpose of carrying on the business of lending against movable products. I have

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never heard at any time that Canada needed to import capital for the purpose of lending more money for the creation and moving of products, but more money constantly is required to build railways, plants and so on.

By the Chairman:

Q. Now my question, Sir Edmund, if you please?—A. Well, gentlemen, I have read Major Douglas's book. I frankly admit that I would not have read it but for my attendance before this Committee. I think in reading it I gave myself the most difficult job I have essayed since I tried to study Greek. I heard what Major Douglas said, ostensibly in answer to the questions put to him, but in my opinion he did not answer any single question put to him, nor did he say anything that had any relation to an answer to the questions put to him. He gave what I heard a gentleman call "a diarrhoea of words" each time a question was asked him. Now Major Douglas begins by giving to quite ordinary, common things, peculiar names of his own invention; and unless he sticks to those peculiar names and builds his theory on those peculiar names, his theory falls to pieces. I observed, with a good deal of comfort, that he is opposed to Bolshevism, and he is opposed to syndicalism, and he is opposed to Marx-ism, and he is opposed to Socialism; he has not much opinion of labour unions, and not very much I think of banks. The conclusion that I have to come to is that he has not any opinion of anything except Major Douglas' own peculiar theory.

MR. SPENCER: Excuse me. Mr. Chairman, may I interject there?

THE CHAIRMAN: No, wait. Permit Sir Edmund to finish.

SIR EDMUND WALKER: His theory is best illustrated I think by an instance in his book, which shows how he would propose to deal with almost the greatest industrial problem perhaps that exists now in the world. That is the difficulty between the coal mine owners and the coal miners of Great Britain. If I remember correctly he proposes to create a thing which he calls a "producers' bank." It is not a bank at all. It has not any capital. It does not declare any dividends. It only performs some of the functions of a bank. It is what I would call a financial office or a sort of bursary. Then he starts out by valuing all the coal mines in England, and having got them valued somehow, he then says six per cent is to be paid for ever to the owners of the mines upon that capital value. The mine owners, poor fellows, are to start the thing by putting a lump sum into the producers' bank, of two weeks' wages of the miners for the moment. The miners are to be paid in that way. If any improvements are made to the properties from that time forward, the money for the improvements shall be found by the producers' bank. He does not say how. It has not any money, and I do not know that it has any credit, but the money is to be found in some way by the producers' bank.

The entire output of coal mined is to be sold to the public. Although it is the same kind of coal, it is to be divided into three different kinds. Under Major Douglas' nomenclature there is what is called domestic coal, and what is called industrial coal, and there is coal to be exported. Apparently you can charge for the coal to be exported any sum that you can obtain. I do not see that he has any peculiar way of handling that. But on the industrial coal you are to get apparently what it costs to mine. And the domestic coal you are to sell, upon the theory that if the people cannot afford to buy coal at the cost of mining it, then the price is to be fixed at a sum that they can afford to pay; and that amount or price is to be found, if I remember correctly, by multiplying the actual cost of mining the coal by the cost of manufacturing all the other commodities consumed in England and dividing that by the value of all the articles produced. Perhaps I should have it the other way on; but it does not matter,

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it is either one or the other. The result at all events is that the domestic coal is sold for considerably less than what it cost to raise it. Not a difference as great, I should hope, as in the case of a motor car he spoke of, not I should hope 25 per cent, but a good deal less than cost at all events; and in order that the poor producers' bank may get enough money to pay for the coal, the domestic consumer of the coal gets a ticket on what is called "the national credit account," that is a euphonious name for the treasury, and "ticket" is a euphonious name for a draft on the treasury, a legal tender bill. He gets that and thus by making up the difference between what the coal cost and what the consumer of the coal can afford to pay or would pay under this peculiar way of arranging the transaction, he can do quite a fine business in coal. As far as I can make out, everything else is to be worked on that theory. You cannot manufacture too much. He tells you that over and over again. You cannot make too many goods in the world; what you want is purchasing power and you can make the purchasing power if you make the price low enough, and you can make the price low enough by just getting a ticket on the national treasury for the difference. The sum of those tickets would become a part of the National Debt and it would grow, and grow, until it reaches the condition that has been reached in Germany. He regards it as a misfortune that Austria should have attempted to straighten out its affairs and get into what we would call an honest and solvent condition. She should have remained as she was, and Germany is in a quite ideal condition, and his system, I am perfectly sure, would produce the German system in England, or in Canada, or wherever it is tried.

Q. Then, Sir Edmund, did you follow Mr. Bevington's suggestion? You did not hear it, but you may have read it. Did you understand it?—A. If I understand Mr. Bevington's suggestion, in the end it would result in the Dominion Government supplying a constant stream of legal tender notes which would not be redeemed, and therefore would create in the end a situation, not quite as bad as Major Douglas' scheme would, in financing someone to buy something whether they want it or not.

Q. In Mr. Bevington's system he suggests local units, with a nominal capital, which would extend credit; the establishment of local units, with a nominal capital, who grant credits to the community upon security. They in turn would borrow from the Provincial Banks incorporated under our Federal Bank Act, and they would borrow from the Federal Government. Explain, if you will, what you think is the weakness of that whole scheme, if it has a weakness?—A. We have admitted quite frankly that the loaning and borrowing from the Minister of Finance in the way that the present banks do, is the weak feature of our finance at the moment. But we borrow as we have also explained, upon products, or upon the documents that represent the value of products, which are rapidly being moved to market. We borrow in order to move wheat to market. The wheat will produce money from foreign countries, to pay that loan. We borrow for meats or for other products of that kind, moving to market. These Bevington loans are long dated loans, and if the Finance Minister did make advances in the same way as he makes them to the banks, he would be making an advance to carry something which you admit is going to run a year, eighteen months or some long time. Now someone has to take up that note which is issued by the Dominion Government, someone has to pay it. It does not stay around in limbo. It is after all just like a banknote of the Canadian Bank of Commerce. We cannot issue a note and expect it to stay out unpaid for ever. It comes back. Who is going to pay those notes? After being issued they have served their purpose and performed their credit operation and someone wants to get them paid. Who is going to pay them?

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By Mr. Good:

Q. How does the bank pay at present? When its note comes back into the bank isn't it cancelled?—A. Yes, it is cancelled.

Q. Couldn't it do that under the other scheme?—A. It cannot be cancelled without being paid. Let us suppose the Government becomes a member of our clearing house. We get these notes that have been issued, in the way you speak of, under Mr. Bevington's scheme; they come into the hands of the Canadian Bank of Commerce, the Royal Bank and the different banks; we send them to the Government through the clearing house. How are they going to pass?

Q. How do the banks pay their own now?—A. The banks pay theirs now in legal tenders, because we are not on a gold basis, but I am asking you to forget that this is an exceptional moment. Let us suppose your notes reach ten million dollars; that would not be a very large sum; and suppose that that ten millions is in the general circulation; it comes into the hands of the bank; they have more legal tenders than they need for their business in Canada; they want to send that money out of Canada; how are they going to do it? That is the real situation that will arise. You will reach a point where the legal tenders will become redundant; the banks will have them; they will have the right to ask the Government to give them the money and they will ask for it. Someone's answer to that is, that the Government can then fund those things and sell bonds in foreign countries and get the gold. If the Dominion is willing to do that, if the Dominion is willing to lend money after money, and money after money, and borrow it abroad in order that it can serve the community through Mr. Bevington's system, all right. But I do not imagine that any Government will be willing to do that.

By the Chairman:

Q. In other words, a Dominion note must be redeemed, just like a promissory note made by an individual?—A. Yes.

Q. There is no distinction between them?—A. No. You cannot float it and keep it out for ever; it comes up for redemption.

By Mr. Woodsworth:

Q. Sir Edmund spoke of redeeming in legal tender. Are not bank notes legal tender?—A. No, they are not in that sense. Dominion notes are legal tender.

Q. But must not the bank notes all be redeemed in Dominion notes?—A. Our bank notes?

Q. Yes?—A. This bank or this system of Mr. Bevington's is based upon obtaining from the Dominion Government their legal tenders against the securities that would be put with them; and an analogy is being drawn between that and what the banks in Canada do at the present time. The banks are borrowing for short periods of time against securities which are quickly liquidable, certain sums of money. This is a proposal to borrow on a great mass of small sums for a long period of time, and I say where will the money come from with which to redeem the legal tender notes, the Government notes that they issue to you? Someone must redeem them. They cannot stay unredeemed. And our issues of course are redeemed. This would be the result of your inflation—for that is what it would mean, if it is issued as money and not redeemable—if there is no gold behind it, your money would become redundant, it would be in our hands and we should ask the Government to give us gold, to ship the gold out of the country.

Q. What puzzles me is how to do that, being on a gold basis or not, how is that redeemed to-day? It is not redeemed, is it, in practice?—A. No, it is not redeemed to-day.

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Q. Then would not Mr. Bevington's scheme be in the same position?—A. No, we are not perpetually increasing the amount of paper money, it is rather being reduced. But this is a system that would perpetually increase the amount of legal tender money without gold under it. And that is not our position at all.

By Mr. Spencer:

Q. If we put a limit on the amount of money we would ask the Government to issue?—A. Then your whole scheme would be limited to that.

Q. We have not been on the gold basis for the last nine years have we?—A. No.

Q. And yet the country has got along all right?—A. Yes, there is no reason why it should not.

By the Chairman:

Q. That point troubled some of the members of the Committee, and if you can elucidate it or elaborate it any further, Sir Edmund, I think they would be glad to hear you. Apparently the doubt in their mind is revolving around the fact that at the present moment there is no gold redemption of legal tender?—A. If the business of this country became at all dull and we were on a gold basis, one of the things the Dominion Government would have to do would be to find the gold for the legal tenders they have out now at the present time, and for which there is no gold. Before the war the condition was such that we wanted gold to pay debts abroad and had a surplus of Dominion legal tenders, we could present them to the Government, obtain the gold and pay our debts abroad. We cannot do that at present. It is quite true we get along but that is the reason for this rate of premium between us and New York. If we were back on a gold basis there would be no premium between us and New York. We would be able to take legal tenders to the Treasury Department at any time, and say we want gold to ship to New York, here are your legal tenders, and give us the gold. You cannot imagine that the Dominion Government would lend money, the legal tenders you speak of, and have no gold behind it. They would have issued these legal tenders and have no gold behind them to redeem them and there would be no one else to redeem them. Behind our issues are the things they are issued for, these liquidable products, and the loans run only a few months and then are paid off. If you found loans from the Dominion to the Canadian Banks, for large amounts, running year in and year out, then there might be something in your argument.

Mr. GOOD: Mr. Chairman, I think with you that this is a point we ought to clear up in our own minds. I am a little bit at sea as to how the ordinary bank-notes are in any real way redeemable. The total amount issuable is fairly constant, and as I see it, the notes go out as Sir Edmund says to do a service according to the demand for them, and they come back in and are virtually cancelled. If they are clean and good they can go out again; if they are not they can be destroyed as so much waste paper. Now am I right in this conception, that they are not redeemed as a promissory note is, in any real way? The only way as I see it that the bank would positively redeem its promise to pay would be in giving out its assets, which are in buildings, furniture or anything of that sort.

The CHAIRMAN: You know that if you had \$100 in \$10 bills of the Canadian Bank of Commerce, you can go and buy \$100 worth of goods from a merchant, who then deposits the same bills in the Bank of Commerce, so that is a practical experience of redemption.

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By Mr. Good:

Q. Absolutely. But that is their function in exchange. I quite understand that, Mr. Chairman. What I mean is that a bank note is never redeemed in that sense. Here is another point I would like some light upon. In the daily redemption such as spoken of, is it not a matter of the settlement of differences, balances if you like, as between banks? Is not that redemption simply the settlement of balances in a clearing house and not in the other sense of a real payment of the paper, I mean a payment in kind or services?—A. A settlement in the clearing house of a bank is the same as the settlement of grain transactions on the Exchange in Winnipeg. Would you say that when several hundred thousand bushels of grain have been bought and sold and dealt in during the day, and that at the end of the day there is only a small amount of differences between these various buyers, that they have not paid for the grain? We absolutely pay our notes through the clearing house; effectively and absolutely pay for them. There is no question whatever about that. The mere fact that we put in an obligation against some one else, put that in to meet an obligation that is against us, that does not make it out that neither of them are paid. They are both paid. I would like to try and make it clear about the note issues. I have tried, but I must try again. The peculiar feature of the note issue of the Canadian banks is that each time the note is issued it goes out to perform a credit service. The Dominion note does not do that. It only performs a credit service the first time. It then passes on as the payment of money from one person to another. It does not ever come back for redemption by the Government to be issued again for a new credit service. It is just like a note of the Canadian Bank of Commerce, which goes out and stays out ten years and does not come back.

By Mr. Spencer:

Q. Might it not be a good service if it went on and on?—A. Our notes are prevented from being redundant by the fact that the moment they are redundant they come back for payment. These notes would not come back.

By Mr. Good:

Q. Why could they not come back?—A. They could not pay them. They would accumulate in the hands of the banks.

Q. What would happen to the process of daily redemption if in the consolidation of our banks we got down to one bank? What would become of the process of redemption?—A. If they were against that bank—who would the bank settle with? You are really creating a situation that does not exist.

Q. I know the situation does not exist, but it is conceivable the situation would exist if Mr. Bevington's scheme were put into operation?—A. If there were only one bank in the country and all the bank notes were issued by it and some were deposited to pay debts to it—the debts would all be paid by that fact. You would put yours in to pay your debt, and somebody else would put his in to pay his debts. Others would be making deposits. Somebody else might have a claim on us for the difference. We would have to pay him this either in our own notes or in legal tender as he might prefer.

Q. Would not that be a virtual cancellation on redemption?—A. Certainly it would. We would have cancelled them, redeemed them.

By Mr. Spencer:

Q. That would be a duplicate of Mr. Bevington's scheme.—A. Nothing like it.

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By Mr. Hughes:

Q. Would not that bank have to keep enough gold on hand to meet any demand that was made on it?—A. Yes, but the gentleman is trying to make out that there is a relation between that and Mr. Bevington's scheme. There is no relation.

By Mr. Good:

Q. The way I understood it, it contemplated practically that; that with one bank in Canada, one class of notes, say Treasury Bills from our Treasury Board—as people did not want to use the paper, it would go back and be cancelled.—A. The bank lends its deposits. What has your institution to lend? It has not anything to lend but the Government's credit.

Q. I do not see why it should not have as much deposits as the present banks have?—A. I am pointing out what would take place in giving a note something that is not like our note at all, because it is something that when you once have it it is not going to be redeemed unless the Finance Minister is ready with gold at any time to redeem it.

The CHAIRMAN: Mr. Bevington did not suggest one bank. He said he would allow the other banks to run.

Mr. GOOD: We can recall Mr. Bevington.

By the Chairman:

Q. I want to ask another question, Sir Edmund. It appears to me that some of the members of the Committee are of the opinion that when a bank gives a credit it assumes no liability and performs no service, and that that credit begins and ends with cross-entries in the ledger and thereby you make a profit without performing any substantial service.

Mr. SPENCER: I do not think you are fair.

By the Chairman:

Q. We will eliminate the word "service". I would ask you to explain it in a concrete way. Supposing I am a manufacturer of leather. I ask for credit of \$1,000,000 for the year 1923. What would usually happen in the course of the year as between the banker and myself, the borrower, during that year, or what service would you perform and what would you be liable for under that credit granted?—A. From time to time as your business advanced, you would draw on the bank until you borrowed a million dollars. We should have paid across the counter every particle of that million dollars. Any idea to the contrary is most visionary and has nothing to do with banking. If a man comes in to borrow a thousand dollars, you may put a thousand dollars to his credit or the proceeds of his note, until he draws it out. You may put it across the counter. He gets the money in one case and he gets the money in the other.

Q. If I bought hides in India you would have practically to make a gold shipment?—A. Yes.

Q. You heard the statement of Sir Reginald McKenna?—A. I heard something quoted from him.

Q. You do not remember what it was?—A. No.

By Mr. Spencer:

Q. Sir Edmund admitted that loans created an equal amount of deposits.—A. I said they do for one minute.

Q. Even if the money is withdrawn, it is paid back to one of the seventeen banks in Canada. It is settled through the clearing house.—A. That is not

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wholly the fact. We pay the money to the borrower. We lend money, for instance, to a firm who buys jute bags in India and find the money to pay for his jute bags in India. Do you want to say we do not lend that money?

By the Chairman:

Q. Can you tell me if any proportion of a bank's reserves are idle during the year? What proportion of reserves must you keep immediately available?—A. Well, we keep about from ten per cent to twelve per cent in actual cash; twenty to thirty per cent in quick loans, and forty to fifty per cent reasonably quickly got at. Not more than forty or fifty per cent of our money is lent out on time.

Q. What would you get for call loans on the average. Do they vary?—A. They vary from $2\frac{1}{2}$ to 3 per cent or 5 per cent to 6 per cent.

Q. The question of interest was brought up in this Committee some days ago. Some thought interest should be paid and some thought it was not a desirable thing. What do you say?

By Mr. Good:

Q. Would you pardon me putting a concrete example? I had that in mind. I would ask Sir Edmund's opinion on a concrete example. I was reading the other day some expression of opinion by Henry Ford. I think, at all events, this is the project, and it will apply to say, some of the big public works in Ontario, like the Hydro-Electric or the Chippewa Canal. The proposition is that say the Province of Ontario would give bonds, that is, promise to pay by instalments over a period of years, so much to the Dominion Government in exchange for an advance of Dominion notes to cover the next budget, and that these would be gradually retired as they were taken back and paid, say over a period of twenty years. What in your opinion are the demerits of that proposition?—A. That is the old story of trying to create money by irredeemable pieces of paper. The trade of Canada will only require a certain amount of paper, promises to pay. Those promises to pay, issued to the Ontario Government, would immediately come into the hands of the various banks in Canada. If they had to pay abroad, they would ask the Government for gold to pay the debts. You cannot have money of that kind and be one of the nations connected with the world without your money getting off the gold basis. And there would be a wide discount between the two countries. We would have to go off the gold basis and have a high premium on the New York Exchange and the other Exchanges if we did that.

Q. Supposing this money could be ear-marked and that it could be issued by the Government to the province as it was needed; that very same money, if it could be ear-marked, would go back again every year, so much to the Federal Government and be cancelled as it went back, and at the end of twenty years—this is the argument I am putting to you now in connection with this proposition, I am not putting it personally, but as these people put it—at the end of twenty years the issue would be extinguished, the work would be done, the whole thing would be completed, without any interest charge, except a nominal charge for the transactions?—A. I do not know whether you know that that has been done in North America over and over again with distressing results. Somebody is going to have the possession of these notes, and if they are payable on demand the payment will be asked. The Dominion Government could not issue a considerable amount of notes of that kind without knowing what you are going to do. I am trying to make the point that our notes are paid when they have performed their purpose. You cannot issue any paper money that has not performed its purposes. You are advocating the theory of

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declaring something is money by the fiat of the Government, make people take it, but suppose you cannot keep your country on the same basis of exchange with foreign countries. You cannot do that. You cannot do both. If you put it into circulation your exchange would be affected.

Q. We had submitted here the other day that the Dominion Government did issue so much money to the Canadian Northern and to the Grand Trunk Railways, \$10,000,000 for the settlement of Dominion obligations. Would that principle be objectionable?—A. Absolutely objectionable, and no excuse for it at all, except the condition the Government found itself in, because of the war. But if these notes are not retired we shall be presenting them to the Government for payment. There are \$50,000,000 or \$60,000,000 improperly issued by the Government which will inevitably come up for settlement when we get back on the gold basis.

Q. Supposing these notes stayed out and were not brought before the Treasury Board and gold demanded for them—if that were not done, all the objection drops?—A. They are all held by the bank now.

Q. Suppose we stay off the gold basis would the difficulty disappear?—A. No. We could stay off the gold basis until our dollar was not worth ten cents. There is no reason why Canada should not isolate itself and get on a paper basis and stay on it forever, with our money nearly at par with the United States, practically only two or three per cent from par.

Q. Better than it was several years ago?—A. A great deal better.

Q. We have not gone on to the gold basis to get that advantage?—A. We reduced the present rate exchange by the sale of our securities to the United States. If we were to go on forever selling those securities we could keep up the exchange.

By the Chairman:

Q. Sir Edmund, I was going to ask you another question, that is if you are acquainted with the credit scheme as advanced by Thomas Edison and Henry Ford?—A. No, I have not read them. Life is short and there are lots of things to do.

By Mr. Kellner:

Q. Would you explain how you would finance a customer who is dealing with a country that is not on a gold basis? Take the Far East, for instance.—A. We have not any bank branches in the Far East, but wherever we have branches—in South America—and the currency is different from our own, one of the greatest difficulties is to keep the capital we have there so that we will not lose the difference in the currency here and the currency there. We can never get our exchange right with the rest of the world until we get back to a gold basis.

By Mr. Coote:

Q. I think you stated that we had an adverse trade balance, considering interest payment and so on, as trade, of \$180,000,000. Something to that effect?—A. Yes.

Q. If we get on the gold base next year and we settle that adverse balance in gold, how long could we stay on a gold basis?—A. We never have settled it in actual gold at any time in our history, and we never shall.

Q. Can we not do it now by floating some foreign loans?—A. Yes, or commodities.

Q. In what way will we be better off if we are on a gold basis?—A. We could maintain our rate of exchange, because there was never any difference in our rate of exchange before the war.

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Q. We maintain our exchange by floating foreign loans?—A. We maintain our exchange by floating foreign loans when we are on a gold basis. We are unable to keep our exchange steady when we are not on a gold basis unless we do directly make sales. If any money is wanted in New York to be brought to Canada, you can get the gold, or if any money is wanted in Canada to go to New York, you can get the gold. There are just the express charges for shipping the gold. If you are not on a gold basis your exchange fluctuates, and it is constantly moving in accordance with the question of whether you are at the moment more in debt abroad or less in debt abroad.

Q. If we fail to maintain the balance of trade or to maintain the difference by selling bonds on the foreign markets for securities, we will soon have our supply of gold taken out of the country.—A. Quite so.

Q. Our exchange during the past year has been at times at a premium?—A. Yes.

Q. At other times at a discount?—A. Yes.

Q. Is that necessarily an evil so far as this country is concerned, to have our exchange at a discount?—A. I should think it was a very positive evil, a very great difficulty in all financial and foreign transactions.

Q. Is it a benefit to certain classes of the people? The reason I ask you that is this, that you yourself spoke this afternoon of a time when our currency was at a discount of 18 per cent?—A. Yes.

Q. Now at that time, cattle men in Alberta were in very hard circumstances, owing to the low prices of cattle, but when they shipped cattle to Chicago, where our surplus cattle were going, the exchange which they got on the draft which they brought back paid all the expenses of shipping the cattle to Chicago. Was that not a distinct advantage to them?—A. It was part of the price.

By the Chairman:

Q. Some other fellow was being hurt in Canada by that?—A. The price was just fixed with reference to it.

By Mr. Kellner:

Q. That would not help the producer with products that are intended for export?—A. It might on occasions but there is no reason why it should. The price will be just equalized as between our notes and American notes.

Q. We get the same price abroad as we do at home, but when we brought it back we got more in American dollars?—A. There is something the matter with the price at home. That is what that meant. I will just say two or three things to help the evidence that I have given. One of them is—I wish Mr. Irvine were in the room—I have a statement by Mr. Walter Leaf, Chairman of the Westminster and Parr's Bank. He says:—

“The part which banks play in industry is, I believe, much exaggerated in popular opinions. It must be remembered that bankers do not create wealth—it is only within very narrow limits that they can create credit. Credit is based on production and savings which increase bank deposits; the function of banks is mainly directive. They can influence in one direction or another the employment of funds which their customers place with them, but in the amount of credit which they can dispose they are neither creators nor free agents; they are strictly limited by their resources.”

I think that might go on the record. I wish to say just another word in connection with a question asked me to-day as to the relativity of bank capital to the amount of the business of banks at the present time. I did explain to

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the Committee that banks struggled in the early days with too much capital and they were now moving to a much more comfortable position. I happened to have some calculation made here that I had forgotten to read to you. I want to show that the creation of large banks and the amalgamation, about which there is so much discussion is really a great service indirectly to the public and I will elucidate it in this way (reads):—

“Return to shareholders on investment 1913 to 1922, 6-6½ per cent per annum.

Earnings in proportion to deposits, capital and rest—1913, 1.43 per cent; 1922, .94 per cent.

Number of shareholders 1st December, 1922:—

10 shares or less.. . . .	4,218
11-25 shares.. . . .	1,703
Over 25.. . . .	1,342
	<hr/> 7,263

Loans exceed deposits in all west.

Throughout bank deposits over \$1,000 rarely as much as 10 per cent of whole.”

Now that is exactly what has taken place in the service of banks to the people of Canada. The big banks, by their lesser overhead expense, by their greater economies, by the effective use of all their powers, are serving the public more usefully than they did when they were separate institutions, with separate boards, and so on. As a matter of fact, the rate at which these are declining is a matter of great import to the banks. I would like to put it on record that there is a difference in ten years from 1.43 per cent to .94 per cent. In respect to the great increase in the bank premises account of banks, I think we should not overlook the fact that in the last ten or fifteen years, the number of branches, whether rightly or not, has tremendously increased. For instance, taken when I went to look at the accounts of my own bank in 1890, we probably owned forty offices. Now we have 550 branches, and probably own 450 offices. Before sitting down I should like to thank this Committee for the very pleasant hours I have had with it. I have tried to answer the questions that were put to me as frankly and as honestly as I knew how, and if I seemed at times to be too fervid, I would beg you to remember that I began to be a Canadian banker two months before the firing on Fort Sumter. I have been 62 years studying the business I have tried to explain to you to-day.

The CHAIRMAN: I am sure I speak the mind of every member of the Committee when I say it is a very great pleasure to have had before us during the last two days Sir Edmund Walker, President of the Canadian Bank of Commerce. It is quite apparent that he has a very extensive knowledge of the science of banking and finance, and I am sure I express the opinion of the Committee in extending to you our very deep thanks for your kindness in appearing before us during yesterday and to-day.

Mr. SHAW: I suggested this morning that I would like to see the return indicating the denomination of notes issued by the bank.

The CHAIRMAN: I will confer with you after the meeting, Mr. Shaw.

We meet on Monday at 4 o'clock, when Mr. Irving Fisher will be present, and in the meantime I would suggest you would read up in the quantitative theory of money. He is to address us on that subject and it is a difficult one, and I hope some of you will be in position to discuss the matter with him.

The Committee adjourned until 4 o'clock p.m., Monday, April 30, 1923.

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13-14 GEORGE V, A. 1923

MONDAY, April 30, 1923.

The Select Standing Committee on Banking and Commerce met at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen; will you please come to order. Are there any motions to present to-day?

There are two motions which have been handed to me, which will appear in the record.

We are favoured this afternoon by the presence of Mr. Irving Fisher, of Yale University. I do not know whether Mr. Fisher requires any introduction to the members of this Committee. I am sure his reputation has preceded him into Canada, and I am sure that all of you have heard more or less of him and are acquainted with his work in the economic field. He is one of the leading men in the economic work of Yale University; he has not only a national reputation in that line of work but an international reputation as well. His writings appear frequently in current literature upon economic subjects, and he is the author of some very well known works. I have more than once read his work entitled "Stabilizing the Dollar", and it is well worth reading, whether the suggestions contained therein are capable of being acted upon or not. I understand Mr. Fisher will address the Committee in general terms first, and that he will then be open to answer any questions that may be put to him by members of the Committee.

Mr. Fisher, we are glad to welcome you to our Committee, and will be pleased if you will now address the Committee. The acoustics of the room are not the best in the world, so that if you will elevate your voice just a little, the audience will have a better chance of hearing what you say.

Professor IRVING FISHER, called.

Mr. Chairman and gentlemen of the Committee: if I am not heard by all those in the room, I hope you will inform me of it, and I will raise my voice still higher. I feel some embarrassment in addressing you in the way the Chairman has suggested, for fear I may be wasting your time by talking of matters already familiar to you, or which have been presented to you by others. I understand the wish is that I should speak to you first in general terms, as a preparation for specific questions later on. I do not know whether I shall be of any value to you when you ask specific questions, unless they are on the general subject, because I am not familiar with your Canadian law or the particular proposal you are now considering. I understand, however, that the general subject is the subject of currency reform in such a way as to obviate the evils which your western farmers and other men, particularly business men, have suffered, just as our farmers and business men in the United States have suffered.

I believe that the evils of deflation, also the evils of inflation, are among the most subtle and the greatest from which the industrial world has to suffer from time to time. I know very few subjects which appeal to me as an economist as being more important; I doubt if I could pick out any subject in economics more important at the present time, in fact at any time, than the subject of avoiding the evils of deflation and inflation; in other words, of the instability in the price level, or, in still other words, the instability of the purchasing power of money. Of course this subject has been brought home to the world by the war as it has never been before. The war has destabilized money and price levels especially in Europe, but to a large extent also in the United States and Canada, and even in South America; it has destabilized price levels on a larger scale and even to a

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more extreme degree, as in Russia, than ever before in the history of the world, and we on this side of the water, with our complaints over first the high cost of living and then the depression of trade, little realize the much greater evils of the same kind which our brethren across the sea have suffered from. The curious thing is that we have been suffering from these evils from time immemorial, without realizing it. A year and a half ago I visited Europe with special reference to this question, to study the moneys of England, France and Germany, and I remember before going across the Channel in some conferences I had with Lord D'Abernon, who is now the Ambassador from Great Britain to Germany, and who is one of the few men in Great Britain who has really mastered this subject, I was much surprised to have him tell me that when I got to Berlin I would find that scarcely anyone in Germany realized that the mark had fallen. I could not believe him, but I found it was true. Of course they realized that prices had risen, but they did not connect that up with inflation, paper money or the falling purchasing power of the mark. So far as they thought money had misbehaved, it was American money that had misbehaved. They saw the dollar rising all the time. I was much interested to find this general ignorance in a country where education and intelligence were supposed to be very widespread. Along with another American economist, I interrogated some twenty-four Germans—I am not speaking of course of professors of economics who had made a lifelong study of this subject, but the men we would meet in the hotels, boarding houses, shops, and women as well. Out of those twenty-four we found just one who had any idea of the truth on this subject, and he was an accountant. We spent one afternoon buying shirts and collars and other gentlemen's furnishing goods from two very intelligent women who kept a shop of that kind in the outskirts of Berlin, and we were talking with those women as to why the prices were so high. As a matter of fact, from our standpoint they were very low, but they would not have understood our question if we had asked why they were so cheap, but they understood that prices were in the language of marks higher than they had been, and the one of the two women who did most of the talking said "It is terrible, we realize that we have to charge more, but we do not know exactly why. For instance, that shirt I have just sold you will cost us as much to replace as what we are charging you for it, so we are not profiteers but, I have made a profit on that shirt, because I bought it for less." You can see at once that if she had understood that the mark had been falling she would have understood that she had not made a profit but a loss, yet in the language of marks she showed a profit. We said to her "Well, why have prices risen?" She cast about and said "Well, we have to pay so much for labour." It happened that I had just been speaking with Professor Kuszynski who is probably the best authority in Germany, certainly in Berlin, on index numbers, and according to the best figures he could get at that time, wages were only eight or ten times what they had been before the war, whereas retail prices were twenty-five times and wholesale prices thirty-five times, so that the rise in wages would not go very far in explaining a twenty-five or a thirty-five fold increase in prices. I asked her what else there was, and she replied "freights". She only thought in terms of the cost to her. Then she went through the whole gamut of explanations that you hear when somebody is trying to explain the high cost of living over here. The last thing we used to look at was money; you scarcely heard anybody talk about inflation as being the cause of the high cost of living, before the war. We were excited about it in 1913, and then during the war, and then few realized it; perhaps you people in Canada did more than we in the United States, because you have lost the gold standard.

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But very few people in the United States realized that high prices were synonymous with cheap money; we were just as ignorant as those women. The woman I mentioned cast about, and among other things she complained about the Government being very inefficient, extravagant, wasteful, and that that had something to do with the high cost of living. I saw that she was not thinking of inflation at all. Then I said "What does the Government do, that it cannot make both ends meet?" She shrugged her shoulders and said "I don't know, they get along some way." Finally I said, "Doesn't the Government make up the difference by issuing new paper money and putting it in circulation?" She looked at me and said rather blankly "I suppose so, why shouldn't they?" I said "Don't you suppose putting so much new paper money in circulation will have a tendency to make prices rise?" She looked at me in astonishment and said "No, why should it?" It never occurred to her that that had anything to do with the rise in prices. Here was a woman who had been victimized for eight years by inflation, and up to that time had not heard of it.

We are all subject to the money illusion, not only 23 out of every 24, but in my country on this side of the Atlantic 99 out of 100 have no notion of the fundamental causes of these high tides of prices that we suffer. Prices rise in unison, and we complain about the high cost of living, and then we see them fall in unison, and complain about depression in trade and unemployment. Students who have given attention to this subject—and I have made it my chief subject I suppose for 15 years—are I think unanimous in their conclusions that while there is sometimes a grain of truth in these various casual explanations that are given for the high cost of living or low price causes, connecting them with the commodity side of the market, nevertheless for the most part these explanations are idle. But so far as they have any value it is usually almost entirely confined to explaining prices of individual commodities; in fact if I were to try to explain the gyrations of the price of sugar, I would not confine myself to studying money, I would have to study the sugar market; and so of wheat or any other individual commodity. But when you take commodities in the mass, when you take the index number, when you take the general average of prices, you will find that their rise and fall is almost a separate subject from the subject of the rise and fall of any individual commodity. In my own teaching of economics, that is the first distinction I try to rub into the students, that they must not confuse the analysis of an individual price with the analysis of price levels, that the two subjects while somewhat tangled together are almost wholly distinct from one another, and as my old master in mathematics, Dr. J. Willard Gibbs—when I was in college he was called the Isaac Newton of America—used to say, "the whole is simpler than its parts," and it is always easier to explain why prices as a whole have risen or fallen than it is to explain why sugar, for instance, or any other individual price has risen or fallen. I say those of us who have made many years' study of this subject have, so far as I know, come with practical unanimity to the conclusion that the master key to price levels lies in money and credit. I say the master key, because I want to leave the door open to consider other causes, but those other causes are very minor causes, and usually very, very minor causes.

During the war some of those other causes had a little bit of importance, but even then they were of trifling importance as compared with these major causes, money and credit. So that we can almost forget everything else when we study the price level, and consider that we are really not studying the commodity markets at all, but are studying the money markets. The whole subject is one of money and credit. There are a number of reasons that could be given for verifying this conclusion, which I will run over rapidly—at least a

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few of them. In the first place we find that countries that have the same kind of money will have the same price curves. If you take the index number of the United States and Canada, when we were both on a gold standard, also of England, France, Germany, Holland, Sweden, Spain, Russia, Italy and Belgium, and even of faraway New Zealand and Australia, you will find all those countries mentioned have sympathetic price movements. If I had a chart here, as I have in my book which is in my bag, it would show in a number of these countries I have mentioned how prices rise together and fall together. Likewise if you take the countries that are on a silver standard, you will find that they have had sympathetic price movements. For instance, take the period from 1873 to 1893; for those twenty years we had India, China and Japan on the same silver standard, and roughly speaking, their price movements corresponded.

In the second place we find the counter-part of the statement I have just made, which you will remember was that countries with the same kind of money have the same kind of price movements, we find that countries that have different kinds of money have different kinds of price movements. Take the years between 1873 and 1893, while the gold standard countries had falling prices, the silver standard countries had rising prices; there was a contrast between them.

In the third place, we find that this contrast between countries with different moneys corresponds to the contrast between the metals of which those moneys are composed—if they are metals. We find that between 1873 and 1893 that whereas the prices in gold standard countries fell about 25 per cent, the prices in the silver standard countries rose about 30 per cent, making a divergence between the two of them of about 40 per cent. The price of silver fell about 40 per cent in London, and the price of gold in Shanghai rose in the inverse proportion, that is, rose from 100 to 166. So there are other verifications. This is gradually being worked out and we find that if you take your best statistics of money and credit, the fluctuations in money and credit correspond to the fluctuations in the price level. You will find that is not only true over long periods, but true over short periods, with fairly small lag between cause and effect. I am working out this subject now and I find that what is ordinarily called the business cycle is explainable chiefly by this dance of the dollar, this change in the price level. So you can really predict, some six months ahead, what business is going to be, by watching the change in the price level; in other words, the change in the purchasing power of money.

This is exactly what you would expect if you stop to think that money, the dollar, is the yardstick of commerce; and when you think what would happen to a man with contracts in cloth if the yardstick by which he measured his cloth should shrink or expand, especially if he did not know it, which is the case with money, and is a very important part of it, it would confuse those contracts, and if the change went against him he would be made bankrupt. That is exactly what we find, when we have what is called the business cycle. We find an undue prosperity of certain classes at the expense of other classes, when prices are rising, and undue adversity when they are falling, a man getting caught at the turn of the tide and ruined, through no fault of his, simply because the yardstick on which he has been depending, falsely, has played him a trick.

Another reason is, when you study the statistics of production you find it runs along quite steadily, even during the war, even during inflation, even during depression of trade, much more steadily than the supply of money and credit. So, the unsteady element is money and credit, rather than goods, and the unsteadiness of business must therefore be explained more by money and credit than by goods.

Moreover it can be shown—although it would take a long time to go into it in detail—that what unsteadiness there is in production is largely itself explainable by the unsteadiness in money, because when money does play its trick on business men, it naturally interferes with their plans, and throws a monkey wrench into the machinery, stopping the machinery to a certain extent. Therefore production is unsteady partly because of the unsteadiness of money and credit.

I most thoroughly believe that if you could once stabilize the dollar, or in other words stabilize the price level, or in still other words, get rid of inflation and deflation or rising and falling prices in the mass, that this world would see business prosperity such as it has never experienced before. Because the history of price shows we never have stability for more than a few years at a time, but that money has been very unstable. First we are suffering from inflation and then from deflation.

I am myself now publishing a weekly index number of prices, in the newspapers, and recently gave out to them a chart, a copy of which I have here—I am sorry it is not in a little larger form, because I am afraid only those in the front seats can see it at all—it shows the general highs and lows of the price level in the United States since 1860, for half a century. Prices rose between 1860 and 1865. We suffered from inflation during the Civil War, just as, lately, we have suffered from inflation since the World War. Then there was a long gruelling deflation between the high point in 1865 and the low point in 1896, represented by this straight line. Of course the fall was not straight, but it is simplified in the diagram of this curve by drawing a straight line between the high and low points. In general it was a steady fall. It produced, as falling prices always do and inevitably must do, depression of trade, and it ended in the Bryan campaign in the United States, when Bryan came forward with his remedy or so-called remedy of inflation to cure deflation; just as to-day Henry Ford and some others are suggesting some kind of inflation to remedy the deflation.

Then after 1896 prices rose until 1913, the date before the war, so that we were complaining of the high cost of living. Then when the war broke out the cost of living rose even more, and reached its highest point in May, 1920. At that time there was great excitement over the high cost of living, especially as the war was over, and prices had risen 25 per cent after the close of the war, after the Armistice. There was great discontent and a great call for deflation as the cure for inflation. So, yielding to this pressure, partly of public opinion and partly to save the banks themselves, the banks, under the leadership of the Federal Reserve Board in the United States—and very much the same thing happened in England and I understand in Canada—caused deflation, and there was this sudden drop of prices down to January, 1922. After that, people were tired of deflation. They found it did not help them, that they were simply out of one frying pan and into another or into the fire, and then prices began to rise in the United States, and they have risen ever since. They have risen really more rapidly than people realize during the last year and a half, at the rate of one per cent a month, which is really a fearful rate when you think of it, but people generally wake up several years after the horse is stolen and ask to have the barn locked. We are now suffering from inflation.

Now I thoroughly believe, with Reginald McKenna, whom I am sure you all know as the President of the largest bank in the world and formerly Chancellor of the British Exchequer—when he says that inflation and deflation are not antidotes the one for the other, but both are evils, and what we want is stability. In fact, when I was in Europe as I said, a year and a half ago, I gave two lectures on this subject at the University of London, and afterwards

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discussed them with Reginald McKenna, and found that we were in entire agreement on this subject, so far as the general principles at least are concerned, namely: that inflation is bad, that deflation is bad; that inflation is not a cure for deflation; and that deflation is not a cure for inflation; that we ought not in the long run to want either, but that we should want to avoid both, and to have stability, which is simply the assurance on which business men have a right to rely, that the yardstick, the dollar, which they use has the same value at one time as another, as reckoned in its purchasing power over commodities in general.

Now, what are the evils that come from this alternate inflation and deflation? In the first place, they are not the kind of evil that most people think. Just as people do not realize what is the cause of rising and falling prices; they almost always ascribe rising prices to profiteering, or labour unions, or trusts, or cold storage, or marketing by telephone, or any one of some forty odd causes of a picayune nature, which are not adequate to the explanation by any means. When prices are falling they attribute the fact to the machinations of the bankers, they personify almost always the factor they blame, and they say there is the man who has done it. Bryan, in 1896, was talking about "the gold bugs of Wall street" and "The bloated bondholders." Now these are really not explanations, but they are pointing the finger of scorn at the man who profits by the situation; because there is always someone who gets rich as a consequence of inflation or deflation, and gets rich as a parasite, off of other people. It is not his fault. You cannot help being a profiteer, when prices are rising, if you happen to be in the position of a profit taker, because the profits just fall into your lap. Of course, you may be more extortionate than other people but you may do that when prices are falling. Your nature has not changed simply because prices are rising, but your opportunity has changed. And when prices are falling, in the same way the bondholder gets an advantage, but it is not his or her fault; he is simply reaping what has been sown in the unstable dollar.

The evil then is not what people think. When prices are rising they generally think there is a scarcity of goods. I can remember in 1913, before the war, and more particularly in 1920—taking these two points of time as rather critical times in public opinion—that almost universally the public in general believed that goods had been scarce, and they thought generally it was due to the limitation of production by labour unions or the trusts or someone in particular. They were bound to personify. Some did not even do that. They thought it was simply that we were exhausting the soil, that we had reached the limit of production, that we had filled up our farm lands, that we had got to the Ricardian acre, and that there was a law of decreasing returns applying and so forth. Whatever the explanation was, it was thought goods were scarce and that explained the high prices, but the instant you tested this theory by facts and statistics you found it was false, that goods were not more scarce but more plentiful than they had been when prices were lower. So the evil of inflation does not mean a general impoverishment. When we talk of the high cost of living it does not mean that it is harder to get things than before, on the average, for the average man.

It does mean, however, a great evil. It is an evil of social injustice. It is an evil by which a few people profit at the expense of the many. When prices are rising, the people who profit are the so-called profiteers, the profit-takers, the independent farmer, the stockholder, the independent business man, generally, the man who pays his so-called fixed charges of wages, interest, rent, and salaries, and takes what is left. If prices are rising, that man on the average makes money, and the other people lose purchasing power, because while

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they get the same fixed salary for instance, they find it will buy less. When prices are falling of course just the opposite occurs. Then it is the bondholder, who is gaining in purchasing power, having the same fixed income, at the expense of the stockholder.

So in general, when prices are rising, it is the debtor and debtor-like classes who gain and the creditor-like classes who lose, and when prices are falling the opposite is true.

The evil then is one of social injustice, of picking the pockets of some people, to the benefit of other people. It is the same kind of economic evil as robbery is, and in appearing before a Congressional committee, which is considering this same subject in Washington, and has a Bill before it to stabilize the dollar in accordance with the particular plan that I have in my book, which your Chairman has referred to, Professor King of the National Council of Economic Research, who appeared in favour of that Bill, said he had made a rough estimate of the actual amount of wealth which had been unjustly transferred through the change in the purchasing power of the dollar during the last few years, namely the war and the after-war period, and he believed that it was not less by any calculation that he could make, than 40 billion dollars in the United States. Then he said, If there had been a 40 billion dollar robbery, which would have amounted to the same thing, the people in the United States would have been considerably excited over it, but this picking of the pockets has been so slyly done that all that the person who has lost can see is that in a vague way he can identify the class that has got what he has lost, and he naturally accuses that class of having intended to steal it, whereas as a matter of fact it is an inanimate object, the dollar, or the price level, which has done the stealing.

I could illustrate this process of transferring wealth from one group to another by a few examples that would make it quite clear, I think—if I am not taking too much time to go into these generalities?

Several hon. MEMBERS: Go on, go on, take all the time you want.

The WITNESS: I really do not know whether you are expecting this sort of thing or something more specific, but let me take three examples, which I will make as pointed and brief as possible. Take the case of a savings bank depositor, during inflation rather than deflation, because it is just as bad and just as important, now that we are suffering from deflation, but beginning inflation, to realize the evils of inflation.

When inflation is going on I said the creditor and creditor-like classes are losing. That includes the bondholder, the savings bank depositor, the salaried man, the landlord, and to some extent the wage earner. Let us take a servant girl who put \$100 in the savings bank in 1896, and allowed it to accumulate at compound interest at four per cent. When, a couple of years ago, she went to the bank teller and said she would like to have her money out, she found that instead of the \$100 which she had put there, that it had grown to \$250. At first her impulse is to say, Look how much I have made just by waiting, through interest. That is the reward of thrift or abstinence. Then when she turns around to spend that \$250, she finds that she cannot get as much for it as she could have with \$100 in 1896. She has been swindled out of all of her interest and some of her principal into the bargain. She has had no interest whatever in reality; she has merely had it on paper. Just like this woman in it is the man who tries to sell her the earrings or whatever it is she buys, that out, it never occurs to her that there is any fault with the dollar; she thinks it is the man who tries to sell her the earnings of whatever it is she buys, that that man is a mean man, and has raised the prices so that they are three times as high in 1920 as they were in 1896, and she wishes she had bought those ear-

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rings in 1896 and had the use of them all these 25 years, instead of putting the money in the savings bank and letting it accumulate to a purchasing power really less than she started with. She is like Alice in the looking glass, who had to run as fast as she could to stand still, but she does not think in terms of money, and so she says "it is very unfortunate" and "these men are profiteers," and "I am robbed." But it never occurs to her that it is the fault of the money.

In Poland, where inflation has gone on more rapidly than here, where it has increased prices about one hundredfold every three years ever since the war, a Polish clothier decided to retire from business three years ago, and sold out his hundred suits of clothes for 1,000 Polish marks apiece. He deposited 100,000 Polish marks in the savings bank to accumulate at five per cent, so that at the end of three years he had 115,000 Polish marks, and he regarded this increase just as the servant girl did, of his money at interest for three years. Then he discovered, when he took the money out, that with his 115,000 Polish marks he could buy one suit of clothes. He started out with 100 suits of clothes, and landed with one suit of clothes. And yet I will venture to say this man, like the servant girl, had no notion that it was the money that was at fault.

Now the second example is that of the bondholder, which is very similar to that of the stockholder. I can best illustrate this by taking an actual case. A lady who is a friend of mine, was bequeathed a sum of \$50,000 when her father died in 1895, which was just when the purchasing power of the dollar was at the maximum, and when the price level was at the minimum. Her father prescribed that this should be invested in bonds by a trustee, and the trustee, faithful to his trust, and to the law, invested in safe bonds. In 1920, just at the peak, when prices were at the maximum, and the purchasing power of the dollar at the minimum, I happened to be with this lady in the City of Providence, where this Trust Company was. Just for the fun of it, I went with her to see her trustee. We had never been there before. He explained how he had made these investments and how careful he had been, and he said, "I regret to say that there was a loss in one set of bonds because your father required that some of the investment should be in these particular bonds, and they have gone bad a little bit, so that instead of the \$50,000 you have now only \$48,000; there has been this slight impairment of principal, which I greatly regret; otherwise you have a very good investment, and you have got all your capital intact." I could not suppress a little bit of a snicker, and he, looking at me, said, "What is the matter, what do you mean?" "Why?" I said, "Mr. Trustee, you say there has been an impairment of four per cent in the principal; that is nothing at all; there has been an impairment of over 66 per cent." He looked at me in surprise, just as the woman in Berlin did, and said "Nothing of the sort, I assure you that these are the correct figures." I said, "I know the figures are correct, but this lady's father left a purchasing power in your hands of \$50,000 as of 1895. Now," I said, "that same purchasing power to-day is represented by \$150,000, because the dollar only buys one-third of what it did in 1895. Consequently this lady in spending her so-called income, which you have been giving to her, has not been really spending any income, she has been eating up her capital; if you had really kept her capital intact you would have had to reserve out of her income a sinking fund to reinvest, to the end that you might have to-day the same purchasing power as the original principal. Now to do that, you would have to accumulate \$150,000 as the equivalent of the original \$50,000, and that would have required on your part the reinvestment of every cent of the income, and even that would not have been enough, consequently by paying over the income to this lady you have been merely inducing her to eat up her capital." "Well," he said, "I see what you mean, but that is not my fault." "No," I said, "it is not your fault, but I think you men who are

administering trust funds ought to take an interest in this subject, for it is a swindle on the person who is supposed to be a beneficiary, to have a so-called safe income when it is safe merely on paper, safe in the terms that it is always so many dollars, but not at all safe in what it will buy, for the person who spends it, and the only thing really she wants with it is to buy something with it."

Now the third example is one which shows where the money goes. For as I said, it is not a general impoverishment, and when this lady lost two-thirds of her principal, or when the savings bank depositor lost all of the interest and some of the principal, it does not mean that that typifies the average situation of this world. It means that there has been a shift by which someone else has got what these people have lost. Now if it is inflation, and the losers are the creditor and the creditor-like classes the gainers are the debtors and the debtor-like classes.

The best example is that of the stockholder and bondholder. In modern business the typical creditor is the bond holder and the typical debtor is the stockholder. Now let us see what the war did to these two classes. Suppose we take an American corporation which before the war had let us say 100 millions of stock par value and 100 millions of bonds. The stock and the bonds both yielding five per cent—five per cent dividends to the stockholder and five per cent interest to the bondholder. Then that means that before the war the stockholder was getting five million dollars dividends, and the bondholder was getting five million dollars interest; that they were dividing the total earnings of the company to these two classes, of ten million dollars, in equal parts. Very well, we have it pictured in your mind. Let us see what the war did. Substantially the war doubled prices. We will assume that it exactly doubled prices, and that this concern was able, with the general current, to double the prices it charged for its products and that it had to pay on the average double the wages and double the expenses of operation, leaving therefore double the profit, so that instead of having ten million dollars to distribute, it would have, after the war 20 millions to distribute, just double nominally, although the 20 million dollars would only buy the same amount as the original 10 million dollars. Suppose in actual fact this company is stationary but with the inflation it has this apparent improvement of doubling its profits to be divided between the stockholder and the bondholder. Now you will notice that no longer is this total stream of income divided equally between the stockholder and bondholder, because the bondholder is tied by his contract down to the 5 million dollars that he used to get; therefore he will still get this so-called fixed sum of five million, out of the total of 20, and the stockholder will get the fifteen million dollars, or what is left. In other words, the bondholder who used to get five million dollars before the war will be getting five million dollars after the war, nominally the same amount, but really fifty per cent less in purchasing power. The stockholder on the other hand will have got nominally three times as much after the war as before, for before he was getting five million dollars, and after the war he is getting fifteen million dollars, where you get three times as much income. But since the purchasing power has been cut in two, he is really only getting one and one-half times; therefore he is getting really fifty per cent more income than before the war. In short, the bondholder has lost fifty per cent and the stockholder has got it. The unstable dollar has picked the pocket of the bondholder to the advantage of the stockholder. When prices are falling, the exact opposite situation takes place and the bondholder is picking the pockets of the stockholder. The dollar, by increasing in its value, is doing that for him, and it may wipe out the profits altogether, so that the concern goes in to the hands of the receiver and is taken over entirely by the bondholder. Now,

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you see clearly the evil of unstable money is the evil of injustice. It means that one party is gaining at the expense of another party. In the end scarcely any party gains through continued inflation or deflation, because the confusion that it causes and the discontent it stirs up, so interferes with prosperity, that the loss is distributed. If you have inflation, it is true that the so-called "profiteer" is for the time making money at the expense of the salaried man and the wage earner, but people are so exercised over the high cost of living that sometimes they strike and sometimes they commit sabotage and sometimes commit murder, that the coal mines stop and the railroads stop and the whole machinery of industry stops and therefore those who are making money cease to make money. You stop the wheels of industry and you throw the control of industry into the wrong hands, because the bondholder is not a man able to take care of independent business, nor is the banker, and yet when these things are taken out of the hands of the original manager, they are put into the hands of people who are not competent to run them. They are put into the hands of people who are incapable of doing this, so that is a costly process and society has to foot the bill. When the evil was at first one of transfer of wealth unjustly from one set of pockets to another, it became a reduction of income for the world as a whole. I want to emphasize the secondary evil, injustice in stealing, pocket picking from one set of pockets to another, causing discontent. Out of that discontent there comes all manner of evil, and very often bad legislation; and I have no doubt that the reason that this Committee is here to-day is to be correctly ascribed to this instability of money. It has hit some people so hard that they are groping around, trying to explain why they are hit. They are holding some people accountable for it. They are coming to you to ask you for redress. Sometimes it is punitive measures they want against the person whom they hold responsible. Sometimes it is radical change in the system, so that this thing will never happen again. Sometimes this change is merely a reversal. As Sir Reginald McKenna said, it is impossible to procure inflation by deflation and deflation by inflation, so I would ask you gentlemen to be on your guard in considering proposals that are brought before you, because the people who bring them before you are very apt to be quite correct in telling you they are suffering a clear wrong, but still more wrong in proposing remedies. But no one, even the people who have been hardest hit by unstable money, can go any further than I have in urging you to realize the importance of it, not only in Canada but in the United States, or in the whole world, the importance of finding a remedy which I hope ultimately will be a remedy that the whole world can enjoy. Now, I have written a book on this remedy, in which I have outlined one remedy, a remedy which it seemed to me would require the least change in our present system. I am not going into that unless you ask me, and for many reasons. One is, that it is by no means the only possible remedy. There are many others that might be considered and perhaps for your particular situation in Canada might take prior consideration. I wish to call your attention particularly to the remedy that was proposed at the Genoa Conference. At the Genoa Conference a remedy was proposed by the British Treasury, which would work for a certain time, and would work well and could be adopted by the United States to-day. It would not be necessary to make the somewhat more radical changes that my particular plan involves for a long time, perhaps never. The fact that here was a conference, an economic conference held at Genoa of the important nations of the world excepting, I am sorry to say, those on this side of the water, a conference which actually proposed to deal with this very question which I understand your Committee here is now dealing with, and to deal with it in a broad way that would apply to the whole world. I will not go into

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that remedy neither, but there it is on record, and it is worthy of very careful consideration. I would simply say in closing these preliminary remarks that if you are after remedies, you have to make up your mind at the outset which of two courses you are going to pursue. If you are going to get a remedy for Canada alone, you must be prepared to suffer through the unstable exchange with other countries, to cut your money off from the United States and other countries and take the consequences. It will mean great inconvenience and annoyance in foreign trade exactly as when India was on a silver standard. The trade between Great Britain and India was subject to this annoyance in varying rates of exchange. In other words, if you solve this problem nationally you can stabilize your own dollar, and I can give you two or three ways in which that can be done, of which I think the one in my book is probably one of the best. If you do that you would have to pay a high price for it and make up your mind whether the public opinion will back you up after you have done it. I have no question that your internal trade is so much more important than your external trade, that if you stabilize your money in Canada, you would cease getting those complaints from Alberta, that they are claiming losses from deflation and bankruptcy; you would do away with a lot of complaint now, but you would at once run into another set of complaints. You would find every importer and exporter coming in here and saying "for Heaven's sake stop these things."

If you would go before the country and say "we are willing to declare our independence of the United States and the rest of the world economically in order to prevent these things which people are complaining of",—they are far greater than any annoyance, in having to adjust the contracts in foreign trade, through unstable exchange,—you can pursue that path. It will take courage, and it may not be politically wise. The other horn of the dilemma, if you are going to solve this problem, the other course is to give up all effort to stabilize the price level independently, and to exert your energy in including the rest of the world to co-operate with you. In that case I would suggest that you, through your proper official agencies, should address the other countries of the world, particularly the United States, and propose an international conference to be held on this subject, currency and price level, and in particular to consider the possibility of putting into effect the recommendations that were made at the Genoa Conference, or to pass the bill now before our Congress and put into force the particular plan of mine. It does not matter what line you adopt as long as you can get it adopted, and it really does the work of stabilizing the price level.

By Mr. Hanson:

Q. Could we have some illustration in brevity of those two different schemes?
—A. I am asked briefly to outline the two plans. The plan of the Genoa Conference was simply this, that the big banks of the world should watch the index number of prices and so adjust their rates of discount as to prevent undue or great inflation or deflation. In other words, when, as in the present instance, prices are tending to rise, let these banks put up the rate or discount so as to discourage over-inflation. That would cause a further rise, and when prices are tending to fall, then to lower the rate of discount, so as to make it easier for the business man, and produce enough expansion to restore the price level and prevent a further fall. This is a rough measure of preventing inflation or deflation. Then, in regard to gold reserves, this Genoa Conference proposed that the various banks of the world should make arrangements with each other, somewhat as our Federal Reserve Banks do with each other, through the Federal Reserve Board, by which an adequate gold reserve can be maintained, where it is needed to maintain this price level. This scheme would work as long as the gold

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reserve was adequate. If the gold reserve should be too big, it would not do any harm, provided the system was worked with the courage of the convictions of those behind it. It would mean, however, raising foreign discounts, even when there was plenty of gold in the gold reserve. Personally, I think we ought to do that to-day. We have nearly 75 per cent of the gold reserve, and it takes a good deal of courage to raise the rate of discount under those circumstances, because the public is not educated up to it. They cannot understand why you should give them so little when there is so much money behind the counter, that you ought to lend out, but there is a good reason why they should restrict loans. That briefly describes the Genoa plan. My own plan is more complicated, I am sorry to say, and I know you have some questions to ask about it. I always hate to try to explain it briefly, because in a short explanation it leaves so many questions unanswered, that I think it is more likely to produce antagonism. But since you ask me, I shall comply with your request.

By Mr. Caldwell:

Q. Before we proceed to the other scheme might we ask the gentleman a question? Take the situation in Canada, where we have an inflation of the prices of manufacturing goods and a deflation in the price of other products. How would the Genoa Conference work, to readjust the difference in regard to the prices between those two lines? The question is in regard to the present situation where we have one set of prices that have risen and another set of prices that have fallen—can the remedy proposed produce a readjustment?—A. My answer is that the readjustment of classes of prices is not part of any banking scheme. That cannot be controlled and ought not to be controlled by the bankers or by the monetary system. They will seek their own level and find it. They will seek their own level, as indicated by the index number. You have now a good index number in Canada, which shows the general level of prices. You may argue that that price level ought to rise or fall a little before you have perfect justice, but that is a small question compared with the question of stability after you have fixed it, and you ought to, more or less, cut the present Gordian knot and fix the price level pretty nearly where it is, whether it hurts somebody or not, in order that for future generations the hurt you are now having will not come again. When you fix that price level, say at the present level, then it should be kept there and if some prices are unduly below their normal and others above, they will gradually readjust themselves as time goes on. It may be painful to one or the other of the parties concerned, but in dealing with the needs of the country, you have to examine the subject in all its branches.

By Mr. Good:

Q. I presume Professor Fisher, that under a condition of changing prices, it would be possible for certain interested parties to effect a fall in different lines, but as soon as the general price level had been fixed, that temptation would be removed. Let me put it again a little more pointedly: it has been suggested that banks are more interested in one line of production than in another, and that they have squeezed one line of producers and sustained another line. Would the opportunity of doing that successfully disappear under your proposition?—A. Yes, it would, under an ideal system. If we had a stable price level, we would come pretty close to that ideal; anyone with the requisite security would be able to get any credit he wanted, at a price, just as to-day if you want to get sugar anyone in this audience can get it. If you go to a merchant, he will not say that he will not let you have it, but that he will let somebody else have it; if he did so you would get angry and say "Name your price and I will pay it; if you have the sugar, raise your price and see whether I will pay it or not."

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That is the way we handle commodities, and the same thing should be true of credit, when you have a suitable price level. The time comes when the bank, to save its own neck, will not only raise the rate of discount, but reduce its lendings, then injustices appear. That is the situation, one which ought to be remedied and which would be remedied if you had a real stabilization scheme.

By Mr. Hughes:

Q. I do not know whether this is the right place or not, but as the Professor was going along, and was placing the first plan before us, the stabilizing of money and credit in Canada, he stated that that would be better for Canada regardless of world conditions, that that would be painful, or it might be painful, and might be disadvantageous for external trade. But would it in the end be more disadvantageous for external trade, or would the advantages more or less balance the disadvantages. You thought it would be better for Canada— am I stating it fairly?—A. Yes.

Q. In a country like Canada that has a few items of very large export, that exports very largely a few things, would it not be more fortunate to have external trade, would we not be better off by having stable conditions in external trade even if they were not so stable in internal trade; do I state it correctly?—A. Yes.

Q. We produce a very large quantity of wheat, which we must sell in the markets of the world; therefore if the plan you outlined first would and could be put into operation, would not the disadvantage to a country like Canada be much greater than the advantages?—A. That is perfectly clear. I do not think it really would, but I think it would seem to be. I have made it a more or less hypothetical case. I do not pretend to be informed of your Canadian situation. If the people of Canada are sufficiently educated upon this subject, and have the intelligence and understanding to appreciate what you are driving at and put up the price for it, I believe you would gain rather than lose.

Q. In the end?—A. In the end, and in the beginning too, because your foreign trade would be subject to evils more apparent than real. As it is to-day you have all the instabilities of the real dollar changing, only you do not know it, just as that woman did not know, or as the banker in Providence did not know. They have two water-tight compartments in their brain; they think of these evils coming, but they do not attach them to the money banking system. But the annoyance of having the rate of exchange increase or decrease in an unexpected way would register itself as a money phenomenon, and they would immediately see that reason sticking out like a sore thumb and say it was this new-fangled scheme by which you had cut yourself off from the American dollar. But I do not believe your foreign trade would suffer on the whole. I think it would rather benefit, but it would seem to hurt because people would ascribe it to the right cause where now they ascribe it to the wrong cause. Have I made myself clear?

Q. I suppose it is my misfortune, but I did not quite follow you.—A. When you find that the exchange at New York is going up or down, and you make a contract with an American for selling wheat, buying harvesters, or whatever it may be; you are counting on a certain rate of exchange. When the changes are registering less, you say that is because your dollar differs from their dollar, and that is because this miserable commodity registered too low, which would be true. But now when there is a general depression of trade which is felt by the American dollar and the Canadian dollar both, the policy of the bankers in deflation and so forth, they suffer to the tune of billions and billions of dollars, they do not attribute that to the money system and say, "let us reform it," they

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say it is due to J. Pierpont Morgan, or somebody else; they attribute it to a cause which is not the real cause, and therefore they do not upset the monetary system, as it ought to be. In other words, if we understood it we would upset our monetary system or change is radically. If you put up a new monetary system, it would be upset likely, because its faults could be seen. Even your external trade would not be injured; the injury would be registered in the rate of exchange, instead of being registered in the price level.

Q. Will you explain what you were going on to say when I spoke; perhaps we will understand it better then. You were going on to explain something when I interrupted you.

Mr. MACLEAN: What do you propose instead?

By Mr. Kellner:

Q. Do you consider that the United States, or any nation that is exporting more than it is importing, leaving out of the question the trickery of the money market, is in a more advantageous position; the nation that is exporting more than it imports. Do you consider that that is a desirable position for a country to be in?—A. I do not think we can say in general that it is more advantageous to have the balance of trade either one way or the other. It all depends upon the situation. You might as well ask me if I think it is as well that I should be in debt to somebody or that somebody should be in debt to me. It depends upon the situation. A business man is in debt or he chooses or wants to be in debt. If you say it is not a good thing, he will simply say that he makes his money in that way. Another man will say that that is not his situation at all. Various countries are variously situated. Some are making machinery but not producing wheat, others are producing wheat but are not making machinery; some are importing more than they export, and really the excess is necessarily borrowing and lending. The United States was a debtor country for a century, now it is a creditor country—the war makes the difference.

By the Chairman:

Q. A country's exports and imports must be on the same level?—A. You have to take into account the invisible exports as well as the visible exports. These are debtor and creditor relationships, borrowing and selling. When we export to Europe and import promises to pay, or bonds or securities, we are not really importing, we are receiving pieces of paper, which indicate that later they are going to import, when they can produce.

Q. The coupons, for instance?—A. If you take them into account, the two sides must balance all the time. I would say this, that we suffer grievously from a false economic philosophy that is called mercantilism. That has come down from the time of Louis XIV. We have what is called the favourable and the unfavourable balance of trade. We have these old exploded theories, and most people are deceived by them to-day. They say it means an unfavourable balance of trade; you may call either one of them a plus, it is merely a convenience. It reminds me of a river in the western United States. It was named by a French Canadian named Lefevre; its name became corrupted into Fever River, and the people avoided it because they were afraid that they would get fever and ague.

By Mr. Kellner:

Taking Canada's position at the present time, would it be desirable in your opinion for us to go ahead and produce all the wheat we can and export as much of it as we can; would we have anything to the good beyond paying the interest on our foreign indebtedness?

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The CHAIRMAN: You mean, producing it at a loss?

Mr. KELLNER: Regardless of whether we are or not, the question would be quite the same.

WITNESS: I do not believe I am fitted to answer the question fully, because I do not know your exact situation.

By Mr. Kellner:

Q. I was figuring on whether we would make a profit on the production or not, I was speaking from a national standpoint; would the nation be farther ahead to follow a policy of that kind?

The CHAIRMAN: You mean, growing and exporting wheat at a profit?

Mr. KELLNER: It would be as an individual that the profit would come—would the nation be farther ahead?

WITNESS: My general impulse is to answer the way Louis XIV was answered when someone was being asked a somewhat similar question about foreign trade. He said "*laissez faire*"—let it alone. If each individual Canadian farmer is given a legitimate interest, if you give him a fair field and no favour, and a stable yardstick with which to make his reckoning, I do not think anybody will be liable to loose.

By Mr. W. F. Maclean:

Q. What is your general scheme?—A. I am perfectly willing to describe briefly my own plan, which is the subject of a Bill before Congress. It is this: we of course are on the gold standard, which means that gold circulates in the form of gold certificates. I will have to express this in terms of our own United States situation, where I have followed it through more carefully than I have for any other country. A gold certificate in the United States is really a warehouse receipt. When you have one of those gold certificates or yellow backs, it means that there is a deposit in the Treasury of the United States of 23.22 grains of pure gold corresponding to every dollar in that gold certificate. My proposal is that these gold certificates be changed in character somewhat, so that instead of each dollar entitling the holder to a definite amount of gold, they will entitle the holder to that amount of gold which has always the same purchasing power. You can always tell, by means of the index number. We now know for instance that a dollar will to-day buy as much as sixty cents bought before the war, in the United States, and I suppose it is very much the same here. It is constantly changing; the dollar to-day in America can be redeemed for the same amount of gold, but it will not buy the same amount of commodities, it will only buy 60 per cent of what it did for instance 1913. Now, let us take our present purchasing power of the dollar, whatever it is, not try to elevate it to where it was in 1913, but try to fix it where it is to-day. This gold certificate, instead of entitling me to 23.22 grains of gold, will entitle me from time to time to 24 grains, 25 grains, 20 grains, or whatever is necessary to have the same purchasing power it had at the start of the system. To make it very brief, the best way to express it is, to show the mechanism by which it works. It would involve two bureaus at Washington, both of which already exist; the first is the Computing Bureau, which is now the Bureau of Labour Statistics, and second the Bureau of the Mint, which already exists. As it is to-day the Bureau of the Mint does not mint very much, and under the present plan we would stop the issue of gold coins. This plan does not contemplate gold coins.

Q. You would withdraw the gold and melt it?—A. Yes, practically. The Computing Bureau from time to time under this Bill every two months would

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compute an index number showing whether the price level had gone up or down, and what it was as compared with the ideal per cent. Suppose we call 100 per cent here the price level, or whatever it is. Two months from now they will compute an index number and find it to be 100; it transmits that information to the Bureau, to the Mint virtually, saying to the Bureau of the Mint. This is your authority for increasing the weight of the dollar, which is merely a piece of bullion, or decreasing the price of gold, which is the same thing. So that the Mint, instead of buying gold as it does now at 20.60 as it is now, the 23.22 would be one per cent less, which might be said to be the same thing as saying that a dollar is one per cent more; so that my certificate after that, instead of entitling me to 23.22 grains, would entitle me to 23.46 or 23.45 grains, the amount of gold which would have the same purchasing power as the 23.22 grains had at the start. Or putting it in this way, the gold certificates would be reduced in volume enough to prevent the inflation going further. It would really take a long time to go into all the ins and outs of it, but in operation it is this. You have the computing bureau telling you what gold is worth from day to day and then the Mint putting that price on. As it is now, gold is bought and sold at \$20.67 an ounce, and has been ever since 1837 simply because the dollar is a fixed weight of gold, so while gold is changing its value all the time, this change is never registered in its price, so that this is a scheme, you might say, to allow the price of gold to correspond to the real value of gold.

By Mr. Good:

Q. Would that be carried on to affect the volume of money?—A. It would affect the volume of money. There is where some of the complications of it come in. We now have 100 per cent gold reserve. We have one dollar of gold reserve for every dollar outstanding of gold certificates. They are merely the warehouse receipts, but the instant the index number is one per cent above, and you try to bring it back again to par by increasing the weight of the dollar, then although there is the same physical mass of gold in the Treasury, the number of dollars in that gold is less, and consequently you have a 99 per cent reserve instead of a 100 per cent reserve. In order to bring it back to 100 per cent, the Government must call in—from taxation it would amount to in the last resort—enough paper money, and cancel it, to reduce the gold certificates outstanding that one per cent, so that you may still have your 100 per cent reserve; and that perhaps is the best way of putting it after all.

In other words, when inflation begins, and you reveal it in your price level, you nip it in the bud by calling in some money; only you do not do it arbitrarily, you do it by virtue of these two offices watching the index number, and registering the prices of gold correspondingly.

A still simpler scheme of course is the fiat money plan and you might adopt that here. Suppose you should say you wanted to maintain your price level here, and you just repudiate your gold standard, wipe it off the map, say we are not on a gold standard, we are on a paper standard, and all we will do will be, when we find the price level rising to contract just enough to nip it in the bud, and if it goes too far then we will expand again. That is the Government will buy more things, or tax less, and put more money in circulation just as Germany does.

Q. By controlling the issue of paper money?—A. Just controlling the issue of paper money. This scheme of mine, does the same thing but is not a fiat money plan. It still has the gold backing, the 100 per cent gold reserve.

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By Mr. Hughes:

Q. It is on the gold standard absolutely?—A. Yes. Many people say to me, is not this giving up the gold standard? And I would like to answer it by saying: no, it is putting the standard into the gold standard. Because at present, the gold standard is not a standard at all. It is a standard of weight, but not a standard of value. Now my plan makes it a standard of value, which it really ought to be. But if the objector wants to press me further and say: Oh well, the gold standard means a fixed weight standard. Then I say: very well, I do give it up then and I want to give it up, and to substitute a commodity standard, so that the dollar shall represent virtually—this is what I do virtually and it ought to be the aim of any stabilization scheme—a market basket of goods, of typical goods, so much wheat, so much iron, so much other things, so that the dollar will always buy that market basket full. The price of the individual ingredients may change, but the price of the basket as a whole should be the same.

By Mr. W. F. Maclean:

Q. So that the debtor and creditor would each get a fair show?—A. That is what I am after.

By Mr. Hughes:

Q. There is another feature I am looking at. The gold certificates were all issued on 100 per cent gold bullion?—A. Yes.

Q. And then the certificates would be drawn in as the gold advanced in price or, if you will give it your word? At all events it would be contracted occasionally?—A. Yes.

Q. Would or would not that mean a very inflexible currency?—A. The only inflexibility would be in the price level, and that ought to be inflexible; just as the yardstick which is inflexible. You do not want a rubber yardstick? Or one resembling a barometer. It is the inflexible yardstick and the inflexible dollar that is required.

Q. Then you spoke of fiat money, where the Government issues all the money and occasionally contracts it. How would that be done?—A. By simply burning up the money when it came in from taxation.

By Mr. Woodsworth:

Q. In the case of that money, Mr. Chairman, we have not only gold money—at least you have in the States, we don't have much of it here—and paper money, but also other credit instruments such as cheques. Would not the great volume of cheques be too great to offset that law you have enunciated?—A. Yes, I am glad you asked that question. I have tried to be very brief. I knew there would be all these questions to follow, and I was afraid I would be taking up too much time over my own particular plan. It is quite true that the volume of credit has got to be taken into account, and as I said at the hearings of the Goldsberg Bill, we really have two legs to walk on in that Bill; one is the adjustment of the gold I referred to, and the other is the adjustment of the credit by keeping the rate of discount sympathetic with the situation.

In other words, after all, the Genoa scheme ought to be considered. In America we could start with the Genoa scheme to-day without changing the weight of our dollar, and it would work as long as we have this enormous gold reserve, until it got down to forty per cent. It is now 75 per cent. If it went up to 100 or 200 per cent, no matter. If it went down, as long as it did not go below forty, no matter; but the instant it got below forty per cent, the scheme would stop working and you would have to supplement it by my plan or something else, you would have to change the weight of the dollar.

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In America there is a great prejudice against changing the weight of the dollar. I think that comes from the fact that people went through the Bryan campaign and got a sort of *idée fixe* in their minds that the weight of the dollar was sacred. Of course, I do not care, as a salaried man, how much my dollar weighs, I want to know how much it buys.

By Mr. Good:

Q. In regard to the Canadian situation where we do not pretend to have a gold reserve, to equal the amount of legal tender issued, what would be the simplest procedure to stabilize?—A. That would be a very difficult question for me to answer offhand. I think from what I have been told that you probably have enough gold to start this plan of mine, at the present weight of the American dollar, or very close to it. But whether that would be the best plan for you to adopt now, I would not dogmatize about. My own feeling is that anything that will go so that you can get public opinion to support it, in the way of preventing inflation and deflation, is so much to the good, and it is difficult to get the people to understand the importance of making some kind of change in the system they have got. I believe that your real difficulty will be in getting sufficient support for any step that you take, and my advice to you would be on the basis of your knowledge of the Canadian situation, to adopt that plan which will give you approximate stabilization, and which you think has the best chance of getting enacted into law in your Parliament. Now it may be that with your being on the gold base you might be willing to take what would seem to you less of a radical step than adopting my plan, but which in America would seem a great deal more radical, and that is to throw the gold standard aside. Say the gold standard is more or less a fiction to-day, which is true. There is only one important country really on the gold standard, and that is the United States. England is pretty close to it, and Canada is within one per cent of it perhaps. I think Switzerland is on a gold standard now; I am not sure that Holland is; but one or two of the little countries.

By the Chairman:

Q. Spain?—A. Is Spain quite on the gold standard? Practically the only important country is the United States.

By Mr. Hanson:

Q. They are all striving for it?—A. Yes, I know it, but that is a sort of groping towards "normalcy." The idea that what we had was right, and that the war has lost it for us, and we want to regain it. But in fact what we had was wrong; we have never had a scientific standard of value. We have had a standard of value that came down from the Stone Age. People think that the gold standard was selected because gold fluctuated less than anything else. That makes me smile, because it has no historical justification whatever. In the first place, those people who selected it thousands of years ago, did not think of fluctuation. Or even if you go back to the time England adopted the gold standard, about 1818, they had no index number. They could not know whether gold fluctuated more or less than silver or anything else. They had no means of measuring it. The index number was not invented at that time. In the second place if you go back far enough, when gold was really used as a standard anywhere, it was not selected consciously at all; the people did not say: "Go to, let us have a gold standard." It just crept in. People traded in gold, silver, and other precious metals, and they found it rather convenient to sometimes accept gold in payment when they did not really want it, because they could get rid of it easily.

Q. Was it not because it was the most stable of commodities?—A. No, it was because it had the largest value in the smallest bulk. It was the easiest

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to carry away. If I wanted to sell something to you, and you said, Well, I can pay you with a hat or an acre of land, or mentioning the various things you had, and among them gold. Well, I would say, I will take the gold, because I can't carry the land away, and I don't want your hat, I have got one, and yours wouldn't fit me; I would not take eggs, because they will spoil; and I have various objections to the various other things, but gold is portable; gold is durable, it is easily divisible, and it has large value in small bulk. In other words, it has the characteristics enumerated in all the textbooks on money, qualifying it to be a good medium of exchange.

By the Chairman:

Q. And more or less in vogue in several countries.—A. But not as a standard of value. It came in vogue as money in that way, because it was a good medium of exchange. We have now a very bad standard of value, because our ancestors once selected a very good medium of exchange. The medium of exchange and the standard of value are two distinct things. Originally they did not need a standard of value, because there were no time contracts. There is a curious thing that illustrates that. Am I going into too much detail?

The CHAIRMAN: Oh, no.

The WITNESS: Poland is said to be recovering faster than any of the other inflated countries in Europe. I gave as one of my examples of inflation Poland, as you will remember. Now why is that? The man in this country, E. Dana Durand, who has made more of a study than anyone else of those countries, says—and I imagine he is right—that he thinks it is due to the fact that Poland is not a highly developed commercial country and has very few time contracts; it is all spot transactions. Now in a country that does not have time contracts and only has spot transactions, it does not matter whether money fluctuates in value or not. It is only when you make a time contract that it matters. When I say I will lend you some money and in ten years you shall pay it back, then I want some guarantee that what you pay back has the same value as what I lent you. To-day we have billions of stocks, securities, and time contracts on the books of bankers, merchants and so on, and that is civilization to-day.

By Mr. W. F. Maclean:

Q. The due date is the terror of the world to-day.—A. Yes, the due date is the terror of the world to-day and what you need to take the terror out of it is a stable dollar. That is one of the great needs of civilization. We have stabilized every other unit. There was a time when the yardstick was not stable.

The CHAIRMAN: We will probably let you finish to-morrow afternoon, but can you appear to-morrow morning at 11?

The WITNESS: Yes, but may I finish this one remark.

Q. Oh, yes.—A. There was a time, just to show the relationship between the physical yardstick and the yardstick of commerce, the dollar—when the yardstick was not standardized. It was originally the girth of the chieftain of the tribe and it was called a "gird." Of course it changed with the dinner the man ate, and with his growth in years, and with the change in succession from father and son. Our yardstick of commerce to-day is just as absurd as though we should say it is the girth of the President of the United States. I sometimes say, "How would you like to have your yardstick for measuring cloth represent the girth of Mr. Taft in one administration and Mr. Wilson in another administration?" It so happens that that change corresponded quite closely to the

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change in the dollar, so that we really have that absurdity. Then it became the length of the arm of King Henry I. That was a little more stable than a girth. Then it was the length of a bar of iron kept in the Tower of London. Now it is the length between the centres of two gold plugs, on a bar kept in a bureau outside of Paris and a duplicate kept in Washington, and I suppose here, somewhere in a glass case, in a constant temperature, so careful are we to have a fixed yardstick. In the same way the unit of weight used to be so many "stones." Now a "stone" must be 14 pounds, and a pound so many ounces, it means something definite, it is all standardized. So with our electric unit; so with our bushel basket. Everything, except where you say so many "hands" high for a horse. Almost everything the business man uses for measuring commodities has been standardized. But on the other side of the market (because the dollar always comes on the other side of the market), we have not done that yet at all; so that I say we have the dollar of the Stone Age. (Applause.)

The CHAIRMAN: Gentlemen, Mr. Fisher will resume in the morning, and after he finishes we will hear a representative of the Canadian Insurance Association.

The Committee adjourned until 11 a.m. Tuesday May 1, 1923.

Tuesday, May 1, 1923.

The Select Committee on Banking and Commerce met at 11 A.M., the Hon. A. K. Maclean, the Chairman, presiding.

By Mr. W. F. Maclean:

Q. Have you any idea Mr. Chairman how the Committee is to work out, and when we are expected to report, or how many more witnesses are we to hear? Are the bankers nearly through to begin with?

The CHAIRMAN: There are two bankers still on our list to be called if the Committee desire them. I thought personally it would be well to have them here when we are considering the contentious clauses; they might then make their statements, and at the same time be available to the Committee for questioning specifically upon these sections.

Mr. W. F. MACLEAN: Have the provincial governments asked for a hearing before the Committee?

The CHAIRMAN: No. We have very few witnesses now. I should think that early next week we should attempt to dispose of the Bill No. 83. Mr. Irvine's resolution being a little wider in its scope may take us a little while longer, although it would be in the interests of public business if we should try and dispose of the Bank Act next week. That will depend very largely upon the attitude of the Minister of Finance. If he delivers his Budget early next week, I presume that will necessitate his attendance in the House, and I think it is only fair that he should be here in the Committee while we are considering the contentious clauses. I think it should be the aim of the Committee to dispose very soon of the Bank Act, or banking Bill.

Mr. SPENCER: May I ask who the bankers are?

The CHAIRMAN: The Manager of the Royal Bank, and Mr. Bogert of the Dominion Bank.

Mr. SPENCER: Have not other names been submitted and accepted by the sub-committee?

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The CHAIRMAN: Yes.

Mr. SPENCER: That will make more than two witnesses to be heard.

The CHAIRMAN: I mean two representing the banks. I think in fact Mr Leman of the Banque D'Hochelaga is to be heard; I believe he is here this morning.

I have a letter this morning from Sir John Aird which I feel I should read to the committee, dated the 30th April:

"In reading over the evidence which I gave before your Committee I find (on page 322) that I used in the warmth of the moment the phrase 'subject to the great octopus' in referring to the Canadian Pacific Railway, and as I feel that that term carries an invidious implication which it was not my intention to convey, I should like to know whether it is now possible to alter the record. If it is, may I substitute the following, which represents more accurately the situation which I had in mind:

"After the words in the sixth line, page 322, 'We would not have had the Canadian National Railway to-day' I should like to delete the remainder of that sentence and to insert 'and the transportation facilities of Western Canada would have been a great monopoly in the hands of the Canadian Pacific Railway.'"

Therefore the statement which he wishes to insert in the record would read as follows: "We would not have had the Canadian National Railway to-day, and the transportation facilities of Western Canada would have been a great monopoly in the hands of the Canadian Pacific Railway." I should think the purpose which Sir John Aird had in view will be fully carried out by my reading the letter.

Mr. W. F. MACLEAN: And the letter to go on the record, that is the real point; but I would not amend the report for anybody. Put his letter on the record, and he will get substantial justice that way.

The CHAIRMAN: Professor Fisher will now resume his statement.

By Mr. Hudson:

Before Mr. Fisher proceeds might I ask a question which I think would tend to clarify his explanation in the minds of some of us?

The CHAIRMAN: Certainly.

By Mr. Hudson:

Q. Mr. Fisher, you referred to an Index number frequently yesterday; will you explain to us what you mean by that, how the number to which you refer is arrived at, and whether or not it is variable in different countries?—

A. The Index number is an average percentage figure showing the rise or fall on the average of a large number of commodities. Here in Canada you have an Index number issued by the Department of Labour covering I think about three hundred commodities, I am not sure exactly how many.

By Mr. Maclean:

Q. More or less similar to what obtains in the United States?—A. More or less similar to that of the United States Bureau of Labour Statistics, which gives similar results for 404 commodities. If sugar has gone up 4 per cent since say last year and beef has gone up 10 per cent then on the average the two together have gone up 7 per cent. If you count them equally important. If you count

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sugar twice as important as beef they have gone up on the average 6 per cent. If you count beef twice as important as sugar they have gone up on the average 8 per cent, because you would count the ten twice to the four once; that is you would take the average of 4, 10 and 10, and the average of 4, 10 and 10 is 8.

Q. Is there a world wide Index obtained in any way?—A. Just a moment; if you in the same way instead of taking two commodities, take three or four or four hundred, you get an average by this simple arithmetical method, or weighting it into a different kind of average. There are a great many different ways of doing it, some are good, some bad, some indifferent. I have written a book recently called "Making an Index Number," in which I have calculated by a number of different methods and shown that all the methods that appeal to common sense that will fulfill certain simple tests such as being consistent with each other, with themselves, agree with each other very well indeed. Index numbers of different countries which have the same standard of money always agree with each other approximately. The Canadian and the American Index number as long as we were both on a gold standard agreed with each other very closely indeed, and if I had the two charts and did not bring them very close together you could not tell the difference with your eyes. Does that answer the question you ask?

Mr. HUDSON: Yes.

WITNESS: Before other questions are asked, there is just one remark I would like to add to yesterday's talk: one man asked me if a system by which the Index number remained very much the same, as I think it should, instead of varying 100 per cent sometimes as it does at present, should never vary from the original 100 per cent more than one or two per cent. He asked if that system would not be a very inflexible system, and I answered it would only mean that the dollar was inflexible in purchasing power as it should be, just as any other unit which a business man uses ought to be inflexible. But it does not mean that the system would not admit of expansion and contraction of business, that it would be inflexible in the sense of putting business in a vise. As I reflected on this question afterwards I thought perhaps my answer had not been a sufficient answer. As a matter of fact the system that we now have is often inflexible and often contracts when it ought to expand, and that is the reason that this Committee is sitting to-day, because of the suffering that has been caused by deflation, which is a kind of inflexibility when the banker refuses to make loans because he must save his own skin in consequence of the over-expansion that has been going on, and has to pull in the reins. The inflexibility which results is very disastrous to business; but if you had instead of this alternate expansion and deflation a stable price level or a stable purchasing power, these two being one and the same thing, then business would automatically be given the money it needed to maintain that price level, and it could expand and contract so far as any causes relating to industry or commerce are concerned without interference. So that my answer to the gentleman is that it produces flexibility, as the inflexible yard stick of commerce produces flexibility for business.

By Mr. W. F. Maclean:

Q. Is not that really the mission of the National Reserve Bank system in the United States, to help that stabilizing?—A. That was one of the ideas that it should accommodate itself to the needs of business, but it has not done so to the extent of maintaining a price level by any means.

Q. But it is in that direction?—A. Yes, it is somewhat in that direction. I shall be glad to answer any questions the Committee wish. I understand that is the purpose. I have nothing to add except as I may be asked.

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The CHAIRMAN: I was going to ask you a question in which all the members of the Committee may be interested. Your suggestion is to vary the weight of gold in order to stabilize commodity prices. Now, in that thought is it your purpose still to retain gold as the basis of that commodity currency?—A. I mentioned yesterday several plans for stabilization, one of which was that described in my book called "Stabilizing the Dollar", and which does involve a change in the gold content of the dollar, a change in the price of gold in other words. Under this system there would be just as truly a gold base underlying credit, underlying paper money and bank credit as to-day, only the amount of gold in a dollar would change. We would still be in sense on a gold standard, but we would have put as much into the gold standard in such manner as to make the gold standards correspond to a commodity standard. I do not believe business can go on permanently without these alternate disasters until we have a real commodity standard, but we can adapt our gold standard so as to make it a commodity standard, so that a dollar will entitle you always when you want to redeem it to gold, but will also in the markets always buy approximately the same average amount of commodities in general.

Q. Were you in Austria last summer when you were in Europe?—A. No, I did not visit Austria, but I visited Germany.

Q. Have you studied the Austrian currency during the last few years?—A. Somewhat.

Q. You have been observing the movements there; what do you think of the arrangement made between Austria and the League of Nations whereby they were given some gold to stabilize the currency there? Was that desirable or undesirable?—A. Very desirable I think.

By Mr. Clark:

Q. Under your system do you think there would be any danger of there being less and less gold in the dollar as time goes on?—A. That is asking me to predicate what is going to happen to the gold market. I rather imagine that gold in the future will tend to increase in value, which would mean the content of the dollar would have to be discussed from time to time under this system in the long run, but in the immediate future it might very likely be upset. Of course no one can predicate.

By Mr. Good:

Q. Just in connection with this question of a gold reserve, what amount, if any, would be desirable for a country to have? You have very much more in the United States than we have; how much should we aim at having? What is the purpose of it?—A. The amount of gold reserve should be such as to make redemption always possible. If you are going to have a gold standard the only purpose of the gold base is to assure the holder of credit that on demand at any time he can secure the gold to which he is entitled.

Q. Is not that impossible?

Mr. SPENCER: In many countries?

WITNESS: No, I don't think it is impossible. We have it in the United States. Any one who wishes to redeem paper money or cash his cheques in terms of gold can do so. Of course it would be impossible if everybody at the same time should demand gold for all the outstanding credit obligations, but nobody wishes to do that.

By Mr. W. F. Maclean:

Q. The Clearing House does it instead of gold?—A. There are offsets of course. The exact amount of gold required depends upon the concrete situation

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in any country. It may be 20 per cent, it may be 10 per cent, it may be 5 per cent of the total outstanding obligations against it, I mean demand obligations.

By Mr. Hanson:

Q. What is considered necessary in the United States by the leading bankers? —A. The system in the United States is a system very complicated with different kinds of money and different kinds of credit, different kinds of banks with different gold reserves required, and arranged in several stages. We have the Federal Reserve system in which the Federal Reserve Banks maintain a gold reserve against Federal Reserve notes and against deposits of member banks in the Federal Reserve Banks, the twelve Federal Reserve Banks, and there is a requirement of 40 per cent and 35 per cent respectively against the notes and the deposits. The statement as now published, consolidates these two, and shows that at present there is a gold reserve of about 75 per cent or just about twice what is needed. That is to say, the gold in the possession of the Federal Reserve banks is 75 per cent of the demand liabilities against the Federal Reserve banks, held by the member banks, but the member banks in turn are allowed to count their deposits with the Federal Reserve banks, as reserves against the individual deposits of their customers; but the percentages are different according to whether the bank is situated in the country, or a reserve city, or a central reserve city, the percentage being seven per cent, ten per cent, and thirteen per cent respectively. And when you reckon back the actual amount of gold against all the outstanding obligations, it is a very small amount that serves.

Mr. W. F. MACLEAN: Might I ask the witness what he considers the gold reserve that we are supposed to have in Montreal, made up of legal notes of the Dominion; does he consider that of the quality of a gold standard? We have apparently two gold reserves in this country; we have one deposited with the Government here, consisting absolutely of gold; and the banks have a gold reserve that they maintain in Montreal, made up of legal tenders, Dominion notes.

Mr. HANSON: Not necessarily; it may be gold coin.

Mr. W. F. MACLEAN: But is it as a matter of fact? It is said to be a gold reserve.

The CHAIRMAN: What is the question?

By Mr. W. F. Maclean:

Q. I am asking the witness if he considers that deposit of the banks in Montreal of the same standing and status as a gold reserve made up of actual gold, as they have it in the Treasury at Washington?—A. I should say, if I understand your question, that a paper reserve has not as good a quality as a gold reserve.

By Mr. Hanson:

Q. If I understood you correctly you said that the banks in the United States and England in 1920, had caused a deflation or decrease in prices. I should like to know in what way they caused it, and in that connection I would like to call your attention to a statement made by Sir Edmund Walker here, that the banks had nothing to do with the fall in prices; he repudiated that idea entirely, as applied to Canada at all events.—A. Beginning with your last statement first, I will say that in the United States the bankers in the same way disclaimed responsibility for the fall of prices, but in a less guarded way than I understand you to quote a previous witness. Governor Harding, of the Federal Reserve Board, stated that the object in restricting credit, the policy for which began in the spring of 1920, was to improve the bank statements and not to

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reduce the price level, and said that it was no part of the business of banks under present law, to attempt to affect the general level of prices. This was very much like saying that the only purpose the banks had in restricting credit was to save their own necks, irrespective of what effect it had on the business man, but the truth is that whatever their object was, even if it were true that their object was restricted to improving the statements of the banks, the actual effect of their action was to reduce prices.

Q. That is your statement. I would like you to prove that?—A. In the first place it is not a statement for which I am alone responsible; I quoted yesterday the Hon. Reginald McKenna who has made the same statement in reference to England, and I could quote corresponding bankers in this country, in America, who would make the same statement.

My confidence in the correctness of the statement is based on, first, a study of the principles underlying the relationship of the price level to money and credit, as embodied for instance in my book on "The purchasing power of money", which is devoted to that particular subject. If the principles which I have tried to set forth in that book are correct—and I believe that to-day the overwhelming majority of economists would back me up—the restriction of credit must have that effect. Then in addition to this general argument, based on the analysis of the causes which affect and determine the price level; we have a number of statistical studies which indicate that it is the case, not only with reference to the present recent deflation, but covering a much longer period.

I might refer in particular to a study made by Mr. Holbrook Working, of the University of Minnesota, in the *Quarterly Journal of Economics*, the last issue I think, in which he has given a long series of statistics designed to prove this very point, and I would refer you particularly to his study and to my book, for a full answer to your question.

I realize that many people, and people of standing and of business affairs, maintain that we have got the cart before the horse in making this statement, and that the deflation of bank deposits followed prices instead of preceding them, and therefore must have been the effect and not the cause.

By the Chairman:

Q. Governor Harding, of the Reserve Board, practically said that in his statement did he not?—A. Yes, Governor Harding made that point. In answering this objection, I would say in the first place that the facts are not quite as stated. If you include all the individual deposits in the United States, it is true that they did not fall before the price level fell, but afterwards, as a whole; but if you separate the deposits into two groups, those that were used for checking accounts, and those that were used for savings accounts, you will find that the active accounts, those which really have a vital relation to the price level, because they are used as circulating medium, did fall before the price level.

Moreover, often when the fall of the price level precedes—if it ever does—I am not sure whether any such case can be found or not,—if the fall in the deposits is preceded by a fall in prices, the objection is not as strong as it seems to be, because you have to take into account not only the amount of the deposits but their activity, that is the velocity of circulation, their rate of turnover; and when, as in the spring of 1920, the business world saw that there was going to be a policy of restricted credits, they felt the tightness of money before it actually showed itself in a reduction in bank deposits. They anticipated that and prices fell more or less in anticipation. In human affairs, sometimes a cause really comes after the effect, in a sense, because of this foresight that the human mind exercises in anticipation. What people actually did in 1920 when they foresaw that it was going to be hard to get money, was to prepare themselves for that event, to the extent even sometimes of increasing

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their bank deposits but keeping them idle, in order to save their solvency; the business man thinking the one thing important for him was to be able to pay his debts, and therefore knowing that it was going to be hard to pay his debts, instead of reducing his loans and deposits, he increased his loans and deposits, in order to have a little bit more margin there. The harder it was to get loans, the more people insisted on getting them, and for a time, there was a great many big business men, because of their relationship to banks, who actually increased their deposits and balances at the banks as a kind of safety fund, but kept it there idle; so the reason it did not tend to raise prices but rather to lower prices was the idleness of it. You see the activity has to be taken into account. Now if you take account of all these things you will find that the theory is correct, that the cause of the price level is the bank credit, rather than vice versa, although in the turmoil of change it does work both ways. I will not deny that there is also a reflex effect, that when the price level does rise you require more money.

In Germany, I was just reading to-day in the New York Evening Post, an account by Professor Bonn, who is one of the best German authorities on this subject, as to the needs for money in Germany. If you talk to a German he will always tell you that prices are so high that they need more money; and yet the reason that prices are so high primarily is that they have so much money. We must recognize that fact, that there is something of a vicious circle there, so that I cannot deny that the causation is sometimes the opposite way to the primary causation; but I end by the statement which personally I have not the slightest doubt of, that the great basic reason for these rising and falling tides of prices, is the expansion and contraction of money and credit.

By Mr. Hanson:

Q. Then if I understand your argument it is this, that the public by some psychological process, foresee a depression, they begin to withdraw their deposits or to let them lie idle; the banks therefore have to maintain their position and they begin to restrict their credits; this has a resultant effect on production, and producers of goods must throw them overboard in order to maintain their liquid position?—A. Yes, only I would reduce a little the statement you have made. What the business man foresees is not altogether the depression.

Q: It is the fear of depression is it not?—A. The important thing with reference to the particular question that is now under discussion, is not the foresight of the business man of depression, he often does foresee that, but the foresight that he cannot get the money, it is the foresight of the restriction of credit. Now he foresees the restriction of credit, because he sees the bank statements. The bankers begin to talk about it and they say: look at the distension here, we have got to call a halt before very long, and then the business man knows that pretty soon he will find it hard to get a loan.

Q. They do not call that halt until there is an indication first of decrease in deposits?—A. Yes, they call a halt when they see their gold reserve is threatened, that they may not be able to keep within the legal limit of the gold reserve.

Q. That may be.—A. That is the important point.

By the Chairman:

Q. The international situation was also a factor. The fact that Europe could not import from the United States, or the United States could not export as freely as she was doing to Europe, that would affect the bank and production?—A. Yes indeed, the foreign situation has been a very important factor ever since the war.

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By Mr. Woodsworth:

Q. We have a very heavy national debt at the present time. If the dollar were fixed now as you suggest, would not that be greatly to the advantage of the bondholders?—A. It all depends on whether the alternative is falling or rising prices in the future. It would be to the advantage of the bondholder to have the price level fixed where it now is, and the purchasing power of the dollar fixed where it now is, if without this fixation the future has in store a depreciation. Personally I think that is on the books now, that we can look forward in the United States to a depreciation of the dollar, so the bondholder is going to be injured by that, unless the dollar is stabilized.

Q. You distinguished yesterday the relative advantages to the bondholders and the shareholders. Have you put those two over as monied people, as opposed to those who are without either bonds or shares? If in the future the productive processes are improved, either by the process of invention, or by organization work carried further and so on, if the dollar were fixed would not that throw all the advantage to either bondholder and shareholder and the disadvantage on the ordinary working man?—A. No, I think not. On the contrary I think the working man would be particularly benefited by a stable dollar. The working man to-day is hit both ways, both by inflation or by deflation. When you have inflation the working man is hit by the high cost of living, because his wages go up more slowly than the prices that he pays for his living. The only way he can get a remedy is by striking. And that interferes with production and reduces his wages while he is on strike. On the other hand, when prices are falling, for a little while he gets a little benefit, because the cost of living goes down faster than his wages. But the time soon arrives when the employer insists on reducing his wages and that produces such hard feeling as to result in strikes, discontent, sabotage and so forth. And soon after the workman is thrown out of work through the lockouts of the employer who is unable to maintain his business with the losses that he undergoes. In other words, you have a deression of trade and unemployment, so that roughly the workman is hit by the high cost of living under inflation, and by unemployment in deflation. He is hit both ways. Now we get rid of both of those if we have a stable dollar; and the improvement in industrial conditions that would come through inventions, that you refer to, would register itself in rising wages; there would be more to go around, and there would be a more or less steady rise in the average income of people of almost all kinds.

By Mr. W. F. Maclean:

Q. Has the enormous issue of non-taxable bonds by the Government of the United States and by Canada any effect on the problem, and if so what effect, that is now before this Committee?—A. I have made no study of the difference in effect of taxable and non-taxable bonds. I should have to give it a great deal more thought before I could talk freely on that difference. But in regard to bonds as a whole I would say that any issue of bonds always tends in the direction of inflation, for various reasons. In particular during the war, it tended more directly toward inflation, because the subscriptions to the bonds, out of motives of patriotism are made beyond the capacity of the subscribers; not out of savings therefore but out of bank deposits made from loans of the banks. In America we loaned to Uncle Sam very largely by borrowing from the banks. I mean we borrow in order to lend, and in that way by increasing the loans and deposits of the banks and increasing the circulating medium—that is one way. Inflation does that, at least during war. During peace, when you issue bonds, it makes convenient collateral security. The more the volume of collateral security—Government bonds are very negotiable—the more the temptation is for the owners of these bonds to use them as a basis for getting in debt

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to the bank, and to the extent that they get in debt to the bank, they are increasing the circulating medium. I say in those ways there is a tendency, whenever bonds are increased by Governments, municipalities or corporations, to make that increased amount of deposits and therefore an increased price level. I believe in respect to that that after the trust era in the United States, beginning in 1900, the fact that local securities were turned into national securities through the trust, made it easier to borrow off the bank. That had as its effect an increase in prices in the United States through inflation.

By Mr. Ladner:

Q. I wish to ask the Professor some questions relative to the Federal banking system. In your opinion, is the operation of the Federal Reserve Bank in the United States an advantage to industry and commerce and business at large in the United States at the present time?—A. As compared with what we had before, yes, most decidedly.

Q. I think there are one or two features that perhaps the Committee would be interested in learning. Would you mind explaining to the Committee how the Federal Reserve Bank carries on with regard to open market operations, what are called open market operations?—A. What do you refer to?

Q. Take with respect to the rates of interest, if banks, having a particular hold upon a given community raised the rates of interest too high, is it not a fact that the Federal Bank has power to go into that community and force the bank to lower its rate of interest?—A. The Federal Reserve system has the power to make its rediscount rate higher or lower than the market rate; at the present time it is lower. I believe it has been lower most of the time, and I think that has been largely because of the war, and the effort of the Federal Reserve system to co-operate with the United States Government in keeping low rates, particularly to the end that the Government should borrow at low rates. I think it is a custom to-day, and the Federal Reserve system ought to be a system which should not artificially lower rates of interest. I think the rate of interest should be raised rather than lowered sometimes.

Q. The Federal Reserve does that?—A. Sometimes it does, but it ought to do so more. I think in general the Federal Reserve ought to have the same policy as the Bank of England to act as a safety valve to keep the rate above the market rate in general. The Federal Reserve Board made two great mistakes—not to go back into the history of the war, but beginning with the armistice: the first mistake consisted in keeping the rate of discount down, which was largely under the influence of, if not at the dictation of the Treasury of the United States, which produced an easy money policy and made it possible to borrow money easily and led to inflation. When they saw the mistake they made, they made the opposite mistake of restricting the credit and raising the rate of discount too rapidly.

Q. In the light of that experience, is there any method by which a practical advantageous scheme could be worked out in the general interest of the public and the business world?—A. Yes.

Q. What would you suggest?—A. I think it is largely a matter of intelligent policy. If the Federal Reserve system had insisted immediately after the armistice on raising the rate of discount, unpopular as it would have been, it would have saved us the enormous cost that we had to pay for the opposite policy. In other words, if we had done what we did do, more promptly, we would not have had to do it so drastically in both cases, and instead of a great rise and fall in prices, we would have had a hill instead of a mountain.

Q. The Federal Reserve Board is appointed by the President of the United States. In your judgment does the element of politics or the tendency of public

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opinion influence banking operations through that species of appointment?—A. I have no objection to answering your question. I do not think that policy, in the sense you mean, enters very much, but I do think public opinion does.

Q. Supposing you had a Board appointed largely through responsible bodies who carry on responsible operations, such as banks and other financial institutions, would you consider that a better system, so that the experienced bankers might determine the rising and lowering of rates of interest?—A. It is hard for me to answer that question, because it is hard for me to make up my own mind. I believe the banker's knowledge on the subject is great only in respect to the technique of banking and not with respect to the relation that their operations bear to industrial problems and particularly to price level. I think there are only a few of the great bankers, either in the United States or in the world, like Reginald McKenna, who really visualized, clearly saw, that the great function of banks is to so adjust the rate of discount as to avoid these convulsions in prices. That is very foreign to their idea and it was for the repudiation of that idea, in the interview that President Harding gave out to the press to which I referred, in 1920 that he was held accountable. But the wrath that overtook the Federal Reserve system and which still exists, especially among the western farmers, resulted in holding them accountable for this deflation and was really the reason why President Harding could not retain his position.

Q. How is the rate of interest to be adjusted in the interest of the people at large during the varying periods, unless you have some central body or authority that could intelligently do that?—A. It is very difficult to do it without a central authority.

Q. In Canada, where we have seventeen banks, it would really be more advantageous if there were some species of intelligent control and direction with respect to the rates of interest through a centralized body like that with perhaps certain Government restrictions. Would you say that?—A. I am rather inclined in that direction to advocate centralized control of rates of interest, because it is a public function that belongs to the whole nation and not so much to individual localities. I think in the individual localities the needs of the individual localities have to be taken care of locally but the broad policy of the relation of the rate of discount to the price level is overwhelmingly more important than anything else.

Q. Sir John Aird told us that in England the policy of rediscount is one along the lines of penalties, where in the United States it is less that way, and in England it leads to inflation and in the United States to deflation. What is your opinion?—A. In the United States it would operate either way. It has led to inflation and afterwards to deflation. I believe the inflation and deflation in the United States are both largely attributable to the policy of the Federal Reserve Board.

By the Chairman:

Q. Mr. Fisher, the point was made by Sir Edmund Walker that in England if a man discounts paper he pays a greater rate of interest. In the United States men have discounted with the Federal Reserve for five per cent and reloaned for seven per cent, which would cause inflation.—A. It is a weakness in the operation of the Federal Reserve system and I think it ought to be corrected; but it has been operated the other way also.

By Mr. Ladner:

Q. What countries have a central bank of rediscount? That is, leading countries? England has, has it not?—A. England has the Bank of England.

Q. And France the Bank of France?—A. Yes.

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Q. Do you know anything about Italy and Spain?—A. I would not be able to give you any specific account of the banking systems of the other countries.

Q. Do you know the Federal Reserve Bank that has just been instituted in South Africa?—A. I have seen a statement of it, but I could not tell you about it.

Q. You do not know whether that is similar to the one in the United States in principle?—A. No.

Q. Do you know the one instituted in Peru, just about to be instituted?—A. No.

Q. Is it not a fact that all the leading commercial countries have a Federal Reserve Bank of rediscount?—A. Well, I could not answer that question without looking it up.

Q. What function does the United States Federal Reserve Bank discharge with respect to international trade in credits?—A. What function does it exercise?

Q. Yes, what work do they carry on there?—A. Under our Federal Reserve law, authority is granted for the establishment of branch banks for foreign business.

Q. Is that considered to be of advantage or not?—A. I have no doubt it is of advantage.

Q. Under the United States system does the Federal Reserve Bank have control of all note issues?—A. Practically, yes. Theoretically, no.

Q. What note issues are given to other bodies?—A. The National Bank can issue National Bank notes.

Mr. W. F. MACLEAN: But they are National notes absolutely, as a matter of fact?

By Mr. Good:

Q. Are not the National Bank notes secured by deposits with the Federal Reserve Board, forty per cent gold against?—A. No, those are not Federal Reserve notes. We have a great many kinds of paper money in the United States. We have the National Bank notes; we have the Federal Reserve notes; we have the Federal Reserve Bank notes; we have gold certificates; we have silver certificates; we have United States notes, so-called green backs, and we have United States Treasury notes. We have five or six different kinds. The Federal Reserve notes are the important kind.

By Mr. Ladner:

Q. In times of deflation or financial depression, is the work of the Federal Reserve Bank in the United States considered to be of very great importance or advantage to the country?—A. I would say in a sense, yes, granted that we have deflation. The existence of the Federal Reserve system saves the country from the panics which we used to have when we did not have centralized reserves. Now, all the reserves can be consolidated and interchanged in various parts of the country so as to save the country from panic. On the other hand, it does not save the country from crises. Of course, we economists make a considerable distinction between a panic, which concerns itself largely with banks and a crisis which concerns itself with the question of trade. The Federal Reserve system has saved us from panics, but it has not saved us from crises. In fact, the crisis we have gone through since 1920 is in some ways the most disastrous crisis we have ever had, but it has not been on the front page so much, because there have not been those failures which are usually connected with it, and especially bank failures. The Federal Reserve system has failed to save us from crises, partly, I would say very largely, not because

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the system is at fault, but because the administration of it has not been alive to the relationship to the price level.

Q. You think it could have saved the crisis you have referred to in 1920?—

A. It could, absolutely.

Q. If you had had another policy?—A. It could, absolutely.

Q. In your opinion, is it advantageous to the country at large to have a central body such as the Federal Reserve Bank, with certain disciplinary powers that they may exercise over the member banks.—A. If I understand your question, I would answer it by saying yes. I think it is, very much in a different form, the same question you asked before, with regard to the advantage of centralized control on the rate of discount.

Q. Is it possible and does it exist in the States, to have a Federal Reserve Board with certain powers of inspection that would check perhaps questionable activities on the part of banks?—A. Yes, I think so.

Q. How does the system work in the United States in that respect?—A. I do not know that I could answer that any more than you could get an answer by reading the report of the Agricultural Inquiry. Of course there have been two opinions. There has been the opinion that there has been discrimination, and then there is the opinion that this interference has been wise. I do not think myself there was any intentional discrimination, but I think the faults which have been complained of have been due to the great mistake, the source of all these evils of the deflationary policy drastically started in 1920.

Q. You have a knowledge, have you not, of the Canadian banking system in its operation?—A. No, I have not, I am sorry to say, not as much as the average man here.

Q. We have seventeen main chartered banks, which is about half of what we had a few years ago, and they have in the neighbourhood of 4,700 branches, and they have a Canadian Bankers' Association which is a sort of a voluntary organization, to a large extent. Do you think that a Federal Reserve system in Canada having the functions such as we have been discussing would be of service to the country at large?

The CHAIRMAN: I suppose he does not want to answer that question?

Mr. LADNER: He will say so.

The CHAIRMAN: It takes a lot of time.

Mr. W. F. MACLEAN: That is the real question before this Committee.

WITNESS: I have no objection to answering the question, but I do not think my answer is of much value in view of the fact that I have only a vague picture of your situation here. I understand you have a Treasury operation corresponding somewhat to the rediscount of the Federal Reserve system, and I should think, since you want my opinion, I should think in my ignorance of the details of your system, that it would be wise to retain that safety valve and improve its functioning.

By Mr. Ladner:

Q. I have another question with respect to the relationship of bank capital to deposits. Is there any general rule in percentages which is carried out in the States with respect to the unimpaired bank capital and the liabilities to the public?—A. There are some restrictions; I could not tell you specifically what they are, but you will find them in the Statutes.

Q. The point I make is this: in Canada for example, in 1904, the total bank capital of the country was about eighty million dollars, some of which was in bank premises; the capital to-day, or at the end of December, is one hundred and twenty-five million, with a total reserve of one hundred and thirty

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million. During that time the bank clearings have increased from \$1,625,000,000 in 1904 to over twenty billion dollars in 1923, while the deposits of the public have increased four times. My point is this, in your opinion to have an efficient banking system, giving the maximum service to the public, is it essential that the unimpaired bank capital should also increase with the expansion of the business such as I have outlined?

Mr. MITCHELL: The witness said a few moments ago that he did not have a very good knowledge of our banking system, and that his knowledge was very limited indeed; do you not think that this question is unfair to put to him, and that this committee should not expect him to answer that in view of that statement.

Mr. W. F. MACLEAN: We can make it ourselves.

Mr. LADNER: I do not think there is the slightest ill will on my part. We have a distinguished witness here, and I submit the question is an ordinary legitimate question in which the important facts are given to the witness, and he is asked to express an opinion on definite facts that are on record.

Hon. Mr. FIELDING: Even though he has said that his opinion would be of no value.

Mr. LADNER: Only so far as the banking system generally was concerned. But I am asking a concrete question. I give the capital in 1904, the increase of capital, I give the volume of increase in business; there are the facts, and I am asking a man experienced in this banking business.

The CHAIRMAN: Never mind talking; put your question so that we will get it over.

WITNESS: May I interpose here a moment? I have no objection to giving guesses if you wish me to. You have already asked me a question to which I gave an answer which was something of a guess, but I really think I ought not to be expected to give guesses because I am apt to do more harm than good. I think I should be a witness on things that I really know about and not be asked, even if I were willing to answer, questions where I would be guessing. I therefore think I had better not answer this question.

By Mr. Hanson:

Q. Is there any general relation between the amount of bank capital required to the turnover of the bank's business in any country?—A. I think there is a general loose relation, undoubtedly.

Mr. LADNER: I know, Mr. Chairman, you are in a hurry.

The CHAIRMAN: No, I am not in a hurry. I do not want to be unfair to any member of the committee, but I do say when questions are asked they should be put quickly, and you should expect some practical answer that would be of use to the committee. Now, there are just thirty minutes left, and there are quite a number of members of the committee who would like to ask questions.

Mr. LADNER: If you will let me go on I will get the answer. I am not asking you to give a guess; I am asking on the point of the relationship in banking business between the unimpaired capital and the volume of business done; that is not a guess; that is a concrete proposition, and the facts known are that in 1904 the total bank capital of Canada was eighty million dollars; in 1923 it was one hundred and twenty-five million dollars, an increase of fifty per cent; the bank clearings which would give some indication of the volume of business, have increased over seventeen times, the bank deposits have increased four times. Now, the question is, as an expert on banking institutions, whether or

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not with the general growth of the country we should have an increase of capital, or is the present capital sufficient for that volume of business. Now, there is no guess about that?

WITNESS: Mr. Chairman, I feel that the answer to this question is not one of general principles; it is the concrete application of those principles to these particular figures. But I do not feel I have a sufficiently clear picture of what this means to Canada. I therefore do not think my answer is of any value to you. I have not any hesitation in answering any question to the best of my ability. I think you can get plenty of answers to it.

Mr. HUGHES: May I ask a few questions.

The CHAIRMAN: Yes; at a quarter to one we must finish with the Professor. Professor Fisher will not be available again to the Committee, as he must leave for his home to-day.

By Mr. Hughes:

Q. If I followed Professor Fisher correctly yesterday, he rather disputes the making of contracts in dollars or terms of money, is that correct?—A. No.

Q. Then I will not ask that question. If I understand the plan proposed by Professor Fisher, he wants to fix prices, he wishes to have a fixity of prices. Under our present system we appear to have fixed quantities or stabilized quantities but not stabilized prices. Under the plan proposed by Professor Fisher he would stabilize prices or fix prices but we would not have fixed quantities; am I correct in that?—A. I think not, if I understand the question. I would be the last person in the world to advocate fixing prices; I believe in fixing the price level.

Q. That is what I mean, it is the same thing?—A. I thought perhaps you did and I was not sure, and I wanted to make the answer in the way I did so as to leave no question in the minds of the committee as to my meaning. You remember I made a big distinction yesterday between prices and price levels. During the war we did fix prices in America—I suppose you did in Canada; they did in England, they did in Germany—fixed the price of wheat and fixed the price of various other things. Now, we are not in war to-day, and we will not discuss whether it was good or bad policy then, but during times of peace at least I think it is a very bad policy; I want to see supply and demand uninterfered with as much as possible.

By Mr. W. F. Maclean:

Q. With your safety valve working?—A. Any commodity can go up or down freely in price, but I want to see the general level of prices fixed, which is an entirely different thing; it is merely fixing the dollar, the general purchasing power of the dollar. As it is now you have to have something fixed; fix the dollar. At present we fix the price of gold; that fixes our dollar. The price of gold in the United States has never varied since 1837; when it was fixed, we took the weight of the dollar to be 23.22 grains of gold.

Q. It is quantity that is taken?—A. If you take that figure 23.22 which is the weight of one dollar, and divide it into one ounce which weighs 480 grains, you will find it is contained 20.67 times; there are twenty dollars you can make out of an ounce of gold; consequently the price of gold is always \$20.67 an ounce. That fixation of one price fixes our monetary standard; and my proposal is, instead of fixing the one price of gold, we would fix the price of a market basket of commodities so to speak, without fixing the price of any individual thing in the basket. Some things could go up and some things could go down, but in the average you have a fixed sea-level from which to work.

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By Mr. Irvine:

Q. If the banks were to call in all loans, what would be the effect on deposits?
A. Reduce them very greatly.

Q. What would be the effect of reduced deposits on prices ordinarily?—A. To lower prices.

Q. Would the competition for goods incidental or consequent on the increase of purchasing power have a tendency to increase prices?—A. Competition of buyers always tends to increase prices; competition of sellers always tends to decrease prices; competition works both ways.

Q. What would you say is the percentage of the present bank deposits in the United States on current account, on short notice, that the banks could not affect by holding up or calling in loans or credits?—A. That would be only a guess; I could not give you an estimate.

Q. Your guess would be it would be rather small would it not?—A. I don't know.

Q. Would you agree that action along these lines could defeat the stabilized dollar?—A. No, I don't think it could. Along what lines? Perhaps I do not understand your question.

Q. I think it would hinge upon this, that if you increase the purchasing power by any means whatsoever, that the result of that would be to increase competition, increase the consumption of goods?—A. You mean if you increase the volume of the circulating medium?

Q. Yes, would not that have a tendency to defeat what you seek to gain by your fixed dollar?—A. You could not fix the dollar and at the same time indefinitely increase the volume of purchasing power or circulating medium; you would be defeating yourself; that would be destabilizing.

Q. Do you distinguish between currency and credit in this proposal?

Mr. Good: Credit instruments.

WITNESS: Credit instruments which circulate are circulating mediums like cheques, so that our circulating medium consists of a great many parts, but of three main kinds. There are deposits subject to cheque; there is the bank note or government note, and there is primary money, gold. The first of these is generally not called money by economists because nobody is obliged to take a cheque, but practically it operates in the same way as money, acts on prices in the same way, because although people are not obliged to take them they do take them; so that I like to include bank deposits in currency in the broad sense, just as much as notes and gold.

Q. Your proposal would not have any control of bank deposits, would it?—A. Yes; my proposal—I am glad you made that point because I have often been misconstrued—I stated yesterday the safeguard against it by saying that there should be two legs to walk on, not only the regulation of gold base, which is the thing you think of as my particular plan and is the distinctive part of it, but also, which is just as essential, some kind of control through the rate of discount or other words of the credit superstructure; if you are going to have a smooth working machine you have to operate at both ends.

By Mr. W. F. Maclean:

Q. Credit is currency more or less?—A. Yes, because of the enormous volume of credit, it is too important to allow it to float and to adjust itself to the gold base; theoretically it will do it in the long run, but if you want a real permanent successful system of stabilizing you have to watch the top as well as the bottom of it.

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By Mr. Irvine:

Q. Would you then in this connection care to state as briefly as you can what in your opinion is the primary object of a finance system?—A. There are several primary objects—that is a very good question, and will lead to a good many answers. A financial banking system is, according to the terms of the Federal Reserve Act, for the accommodation of business, and I believe that that is what people generally associate with the term. It ought to be, if it works ideally, so arranged, as I said yesterday, that any borrower if he has got the security, if he can make satisfactory terms, ought to get satisfaction, the banking system ought to be such that any one who has got the wherewithal can buy the credit that this store sells—it is a store for credit, just as the sugar market ought to be such that anybody who has the money can buy sugar, and the price should be so adjusted, and that is where the rate of discount comes in; but that is not the only purpose of a banking system. The other purpose, or another purpose which I am inclined to think is even more important, should be ultimately, and I believe will be ultimately, to stabilize the dollar, to stabilize the price level to avoid expansion and deflation, in other words I disagree thoroughly with what Governor Harding said when he said “Our operations should be confined to maintaining a good banking statement.” I believe that a good banking system should serve the community not only in supplying loans in a decent way where any one can get them who has the wherewithal, but also in preventing an upset in the merchants’ calculations that come from inflation or deflation.

Q. Would you say in a general way then, that the financial system of the country should act somewhat as a bridge, between production and consumption? Is that relation only incidental or is it fundamental?—A. If I understand you rightly I would say it is fundamental. The banker is a loan broker. He takes deposits and he lends them out. Very often they are the same thing transformed.

Q. Then you would agree that in itself the finance system should not hinder in any way either the operations of production or the capacity for consumption in any country? If it does you would say it was faulty in some way or other?—A. That is my chief complaint, that it does now by producing inflation and deflation, it does grievous harm to business to-day, because that function is left out.

Q. If you stabilize the dollar, you would not make a different dollar for Montreal and another for Winnipeg. Yet what the dollar will purchase in Montreal will be very different from what the dollar will purchase in Winnipeg?—A. Not very different.

Q. How would you make it swallow up the difference which would come in through extra handling, transportation and such things?—A. That takes care of itself, and what you have in mind relates only to goods moving in a particular direction, but there are other goods moving in the other direction.

Q. It does not take care of itself here Professor.—A. The general level of prices in Montreal and Winnipeg, you will find go up and down together, very closely. I would venture to say, that you will be surprised if you get them—I do not know whether you do—but in the United States we have for retail prices the figures published every month by the United States Bureau of Labour, statistics all through the United States, of the rise or fall of the cost of living, in the different cities of the United States, and it is surprising how they go up and down; sometimes New Haven will go up one per cent, and Chicago down two per cent, but you seldom get a very much upset of equilibrium.

By Mr. Mitchell:

Q. Professor, you said earlier this morning, that the inflation or deflation of trade was due as a rule, to the action of the bankers in either extending

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or restricting loans. Have I understood you correctly?—A. I do not know that I would say as a rule, but recently the particular examples we have had, have originated in the banking system. Sometimes they originate in a gold mine; sometimes they originate in a chemical process of producing gold, like the cyanide process. Anything that affects the circulating medium.

Q. But that recent one since the Armistice is what I refer to. That is the reason why you suggest the system you described yesterday as a cure of the evil of the rise and fall in prices?—A. That is one reason, yes.

Q. But under the present system, as it exists in the United States and Canada, I presume that without your cure you would have to leave the decision of the question of loans or the calling of loans to the institutions as they presently exist?—A. That unless my particular plan is put in operation?

Q. Yes.—A. No, there are many other ways.

Q. But I mean as our systems are working now both in the United States and Canada, it is the only system that can apply under the present laws, you have to leave the decision to the bankers who have the knowledge of it.

Mr. W. F. MACLEAN: No, it is the leader of the Government.

By Mr. Mitchell:

Q. Well, it might be the Government, if you adopted that system. But I am talking of the present system. You would have to leave it to the banker or to the Federal Reserve, such as you talk of in the United States.—A. We do at present.

Q. That is what I mean, we do at present, it is left at that, and there is no other way at present. Now what would be the effect supposing that the bankers of the country who have the knowledge, should continue to make loans what would be the natural effect on the rise and fall of prices?—A. The tendency would be to increase the price level. Any extension of loans works in that direction. Whether it actually would or not would depend on whether business was extended rapidly enough to absorb it, and on various considerations.

Q. Take the period of 1918 when the banks began to call their loans?—A. 1920.

Q. For 1920, yes. When the banks began to call their loans. Now they came to the conclusion no doubt that there was some good reason for that. Supposing they had not begun to call their loans, but had extended their loans, and went on lending, what would have been the effect?—A. The effect, if they had gone on loaning indefinitely would have been to break the banks. I was not proposing that they should have gone on in the way they have been going on. I condemned that too you will remember. I said there was an easy money period in 1918 in the United States after the Armistice.

Q. So that as a matter of fact you approved of their restricting the loans at that time?—A. I did not approve of the way they did it. They overdid it.

Q. That is a question of opinion?—A. No, it is not a question of opinion. It is a question of the price level. I have the effect of it here. (Referring to diagram). You will see what happened. You see that mountain there of prices. Prices went up. That was the fault of the policy of easy money in 1918. Then they went down. That was the policy of restricted credits in 1920. Now they ought to have put up the floodgate here at one point, and opened them at the other.

Q. Supposing at the peak they had continued to loan, then the conditions would have got worse, would they not? And your only disagreement with the bankers is that they should have called one year earlier than they did.—A. No, that is not my only disagreement, that is one. I complain of the policy of the

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bankers, including those in the United States, and the Federal Reserve Board, in making money too easy after the Armistice. That is why we went up this hill of prices. Now your question, as I understand it, is, granting that that mistake was made, and we find ourselves on top of this hill or mountain in 1920, then what should have been done? Ought they not to have called a halt? I say, yes, they should have called a halt, enough to make that line go horizontal, stop it going up, but they called the halt so sharply, they pulled on the lines of the runaway horses so much that they made them fall down; they ought to have pulled in enough to have stopped their running away, that is all.

Q. So it is a question of degree, they called a little faster than you think they should?—A. Yes, a good deal faster. It is all in terms of the price level. If you get the price level stable, that justifies your policy.

Q. If they had not called, however, and we had gone on going higher than the peak of your plan, the result would have been chaos in the country would it not?—A. Yes.

Q. And you would in no way commend going any higher?—A. No.

Q. The only criticism that you have is that they called too quickly and should have taken a little more time?—A. Yes.

By Mr. Good:

Q. Returning to the question I asked some time ago regarding the gold reserve, and the influence of a gold reserve on our currency system. I think it was about 75 per cent of reserve in the United States and there is very much less in Canada, perhaps not one third of that. Now it does not appear to have made very much difference in the prices or in the functioning of our currency. Then I ask what amount is necessary? Here is a difference of three to one and it does not affect the functioning of our currency, how far may we go down with safety?—A. You can go down a long way so long as you have enough cash on hand at all times to meet the demands for redemption. Generally they are pretty small.

By the Chairman:

Q. That is determined by experience I suppose?—A. Yes, and it depends on the character of the country and its business.

By Mr. Good:

Q. Under the present circumstances in Canada when no one expects gold and cannot get it, is there any particular objection in your opinion to the present situation? Where no one can get gold is that a satisfactory system to continue?—A. No, I should say that the present system is unsatisfactory to continue. Either you should get back to a gold basis or operate the present system in the interest of stabilization.

Q. Could you operate a fiat money system so as to stabilize prices?—A. Your question is, could you operate a fiat money system, such as you now have in Canada, so as to stabilize prices? I answer, yes; theoretically at least. And if you had sufficient public opinion behind you and a sufficiently strong law requiring a deflation restriction when the prices tended to rise, it could be done. But the experience we have had with fiat money throughout the world's history, has almost always been bad. There have been a few cases where for a limited length of time they had fairly stable money. Although there was no gold in which it was redeemed. But the experience is not reassuring and I share the prejudices of the banker and the average business man against an unanchored system. The ideal anchor ought to give you a stable price level, and the only justification for the anchor to gold is that it prevents the de-stabilization that comes from a wildcat inflation; but if we ever get to the point

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where you have enough self-control, intelligence, wise legislation, and public opinion to maintain a fiat money system which does maintain a stable price level, the curse will be taken off it to a very large extent.

I would not like to go on record as favouring in general the fiat money system, and I should think Canada could afford to get something better than a fiat money system, in the way of stabilization, but I will not deny as a matter of fact that you could stabilize and have fiat money.

I will not even deny that in certain countries of Europe, where they could not afford to have any gold basis or any better anchor than merely controlling the issues of paper money, that it might be advantageous for them to attempt something of the sort at this time. If Germany for instance would simply stop inflating, we would think it was a great improvement over the present situation, but there is always the temptation to inflate if you have a fiat money system; it is hard to get rid of it.

Q. The utility of such a system would depend on the wisdom with which the issue of money was regulated?—A. Yes, absolutely.

Q. Is it much easier now to regulate something of that sort than it was fifty years ago?—A. It is much easier now, because we have an indication in the index number. I think the introduction of index numbers is a fact of very great importance, and if you could get people educated up to watching that thermometer or index number, and saying: now the policy of the banks and of the Treasury should be directed to maintaining that fairly constant, it would not much matter whether you had a gold standard, or fiat money, or what you had, as long as you stuck to your price level.

Q. Have you examined the scheme proposed by Mr. Bevington?—A. I have an idea of it; that he would more decentralize and localize the banking institutions.

Q. Do you care to express an opinion as to the use of such a system?—
A. If it went to the extent of having really independent moneys in the different provinces, I should deplore it; because I think it would lead to confusion and probably to inflation in some of those places. If it went no further than the localization of the function we have in the United States, where the 12 different Federal Reserve districts are more or less separate from each other, so that you may have a bank in more or less close contact with the needs of the particular district, whether it is industrial or farming, or whatever it may be, to adjust itself to the particular requirements, I think it might be advantageous. It is difficult for me, in my ignorance of Canadian conditions, to give a categorical answer, but I would certainly fight shy of carrying the localization very far.

So far as control of the price level is concerned, through the discount rate or otherwise, I believe it should not be local but should be central. That is my main point in all my testimony, that the price level is the thing to be guarded, and the guarding of the price level is not a local affair. In fact it is international properly.

By Mr. Forrester:

Q. Have land values anything to do with stabilization?—A. I think land values like other values, will take care of themselves. I think the key to stabilization is in money and credit.

By Mr. Hughes:

Q. Would the abolition of custom houses have a tendency to affect the price level internationally?—A. I believe in the abolition of custom houses to a large extent. (Hear, hear). I am sorry that this country and mine have not at least reciprocity. (Hear, hear).

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Mr. SHAW: Mr. Chairman, is the Professor going to be here this afternoon?

The CHAIRMAN: No, he is going back to New Haven. We cannot induce him to remain. It would not be fair to suggest it at all.

By Mr. Good:

Q. It was stated by a witness before the Committee the other day, that the remedy for hard times is economy and hard work. What is your opinion of that?—A. It is all right as far as it goes. But it is not *the* remedy. It is only *a* remedy, and a small one at that. The whole source of hard times is the unstable dollar, inflation and deflation, the fact that debts are interfered with, and people made bankrupt, and concerns lose their profits, and have to discharge the workmen, and you have unemployment and dislocation of business. If you can get rid of deflation and inflation you get rid of "hard times."

Q. What would be your opinion of the policy of financing public works by the issue of an extinguishable legal tender?—A. If it were done wisely and with the eye fixed on the price level as the gauge, I think that would be the answer to your former question about fiat money. It would justify itself, if you could actually get that, so that it was safeguarded and kept by public opinion.

By Mr. Woodsworth:

Q. Would the Professor regard our money at present existing in Canada as fiat money?—A. I did, but I do not know whether I am justified quite in doing that. I suppose you are aiming at the gold standard, but at present your money I suppose is not redeemable in gold. I should say then it is fiat money, if it ever exists.

By the Chairman:

Q. If you pay two per cent, you can get gold by going to your country.—A. Yes, that is its commercial value in terms of gold. It is not redemption.

By Mr. Good:

Q. Would you agree with a Federal policy of increased taxation, providing we do not regulate prices as you have suggested—would you agree with the suggestion or proposal to increase taxation during the period of rising prices, and decrease it during a period of lowering prices?—A. Only to the end of regulating the price level.

Q. It would have that effect, would it?—A. It might not necessarily, but it would, if, when taxes were increased the money obtained from the taxes were physically destroyed.

Q. That would happen with paper money that was taken back. It would be destroyed when it was taken back?—A. That ought to be part of the system. You could increase your taxes and then put that money in circulation in all sorts of ways, in which case your price level would not be safe-guarded.

Q. I fail to make myself plain. I mean, the money would be withdrawn from circulation.—A. If it were withdrawn from circulation it should be withdrawn with that particular object in view. The index number should be watched.

Q. Could Professor Fisher suggest any practicable policy for us to adopt as the beginning of a stabilizing process either within our own boundaries or in association with other nations?—A. Mr. Chairman, I have given this a good deal of thought, and I can only recur to what I said yesterday, that there are two courses to pursue, one, to cut yourself off from the United States and the other countries, which, on the basis of merit would have a great deal more to be said for it than might seem; but from the standpoint of practicability,

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very likely it is out of the question. Assuming that that is the case, then the answer to your question is this: if you are not going to cut loose from the United States, if you are going to resume the old dollar, then you are helpless. You may improve your banking system so far as helping it to work more smoothly here and there, but so far as this great problem I have been talking about, which is the object of this meeting—and I hope you are going to aim at that object and answer the other questions in reference to that object—I would say you are helpless if you try to do it by Canadian action alone. Therefore assuming that you are not going to cut loose, that you are going to rejoin your dollar to ours, the only practical step you could take would be international action.

By Mr. W. F. Maclean:

Q. Is the United States moving along that line?—A. The United States is moving along that line. It has this bill before Congress. It has had four days hearing and will come up before Congress again and there is a good deal of sentiment—aside from the sentiment of my particular plan—there is a lot of sentiment in favour of the Genoa plan to regulate discount. At least, bankers are seeing the importance of it and they are wanting to save their own skins again, against the wrath of the western people who have the same prejudices that you doubtless have come across here. I would suggest that if you are going to take this horn of the dilemma and join with the United States, you would take such action as would look towards international agreement and that you would make your own overtures. Those overtures could officially be made towards the United States and other countries, particularly Great Britain. I mention Great Britain particularly, not only because you are part of the British Empire, but in Great Britain they are particularly insistent on this problem. It was a British scheme. They proposed that scheme at Genoa, and I believe that scheme represents the high water mark of British sentiment. They wanted to stabilize the value of gold and they suggested a method of doing it, but within certain lines, and the work ought to be supported. Therefore while I would be glad if in your overtures you would refer to my plan and the fact that it is pending in the United States, I would stress even more the Genoa plan, not because I think it is better, but I think it is more practical. I suggest that you try to bring about a conference involving the three nations, this nation, my own nation, and the British nation, and stress the fact that you have the Genoa Conference to go by, that the Genoa Conference recommended thus and so. Why should not we three Anglo-Saxon countries attempt to make an agreement which will put the Genoa Conference idea into effect. That I think, is a practical step. It cannot be accomplished in six months, but I think it might in six years.

By Mr. Hughes:

Q. Even though no other nation came in, it would be beneficial.—A. Even though no other nation came in, it would be beneficial, and in that respect the Genoa plan has an advantage over mine, that even if three nations adopted it, it would not isolate these nations against the other nations, because you are stabilizing the value of gold by controlling the volume of credit and adjusting the gold reserves of the banks throughout the world. I think if you confined it to those three countries you are more likely to get something done than if you have the ignorance and the dissenting voices of other countries.

By Mr. W. F. Maclean:

Q. Has not the attitude of the American Banks changed towards the National Reserve Bank system and do they not look with more or less favour

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on it now, whereas in former days they opposed it?—A. When the Federal Reserve system was proposed, almost every bank in the United States opposed it. Bankers are naturally stand-patters. They oppose anything new. They opposed my plan for stabilizing the dollar, but after it is once done, they are the best defenders of it. First, the banks were against it. Then, after they got into it, they were in favour of it, but now there is some loss of public support because of this deflation, especially among the small western bankers.

Mr. W. F. MACLEAN: May I say a word on behalf of the Committee in regard to the witness? He has been a first class witness. He is a scholar and he has studied the subject. I do not say he knows all about it, but the characteristic of the witness is that he uses plain language, plain terms and he knows his subject, and he is very much as we are—he is posted in our Parliamentary and financial traditions, and it has been a great satisfaction to me, and I think to all of the Committee to hear a witness of that calibre state a great problem in plain language, in exact terms, in illustrating a knowledge of the subject as he appears to have.

Mr. SHAW: I would like to endorse very heartily the sentiments expressed by Mr. Maclean. I think it has been a very instructive and a very pleasant session with Professor Fisher. I am only sorry we have not had an opportunity of having him explain in detail his scheme for the stabilization of the dollar. I would like to have that explained in detail.

Mr. W. F. MACLEAN: Read his book.

Mr. SHAW: I am going to do that. I think we are highly indebted to Professor Fisher for the exceedingly instructive dissertation he has given us.

The CHAIRMAN: I am sure it is hardly necessary to formally put this motion, and I think you will agree with my procedure, when I immediately convey to Professor Fisher our thanks for his kindness in attending before the Committee. It was not a very slight task for him to assume, to leave the academic shades of Yale University and spend two days in coming and two days in going back; I am sure we are very deeply grateful for Professor's Fisher's informative address to the Committee during yesterday and to-day, and I trust the visit has not been without some advantage to him. I wish to convey to you, Professor Fisher, the thanks of the Committee.

The Committee adjourned until 4 o'clock p.m.

4 p.m.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, the Committee will come to order. Mr. R. J. Wickham, representing the Canadian Federation of Insurance Agents, desires to address the Committee specifically upon the amendment offered by Mr. Hughes, and which stands upon the order paper. We will now hear Mr. Wickham.

R. J. WICKHAM called.

Mr. WICKHAM: Mr. Chairman and gentlemen, with your permission I will read the statement that we wish to make.

Insurance agents through the Dominion of Canada some time ago decided that it would be in their own interest, as well as in the interest of the insuring public, that a central body should be formed, to represent the associations of

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a local nature then existing. Many complaints had been heard as to interference by chartered banks with the business of licensed insurance agents, and immediately on the formation of the Canadian Federation of Insurance agents, it was decided to refer the complaints to a Committee for investigation.

The basis of these complaints against banks, in the matter of soliciting insurance business, was that they, by means of subsidiary trust companies, control the insurance of prospective borrowers. It was said that when a customer of some banks applied for a loan, he was advised that the same could not be secured unless, or, could be secured if, his insurance business was entrusted to a certain Trust Company, and it was felt that the coercive power of credit lodged in a money-lending institution was unfair competition and would stifle individual effort.

While the Committee of the Federation was aware that it was common knowledge that some of the chartered banks were soliciting and influencing the placing of insurance business, it did not come to any definite conclusion until it had thoroughly investigated the relationship existing between certain banks and certain Trust Companies.

The result of the investigation shows that there is no doubt that certain banks are in effect, evading the restrictions of the Bank Act through Trust Companies, with insurance departments. It was found that certain Trust Companies were, in effect, the creatures of certain banks, being directly and effectively controlled by the management of the bank with which each one was associated. For instance, the Royal Trust Company is associated with the Bank of Montreal and with no other bank. The Montreal Trust Company is associated with the Royal Bank of Canada, and with no other bank. The Bankers' Trust Company, which previously had been associated with the Merchants' Bank and with no other bank, is now, since the purchase of the Merchants' Bank by the Bank of Montreal, exclusively associated with the Bank of Montreal.

Being convinced that certain banks, through control of associated Trust Companies, were carrying on contrary to law, the business of insurance agents, the Canadian Federation of Insurance agents passed a resolution known as "The Montreal Declaration." It is a protest against this practice. The resolution was sent to all insurance companies doing business in the Dominion of Canada, with the result that it was indorsed by them with but a very few exceptions, as this printed list will show.

I have a printed list of the companies that support this, and there are but few that do not support it. If you care for it, I will file it.

Mr. W. F. MACLEAN: Yes, put it on the file.

Mr. STEVENS: If such an Insurance list is put on file, it ought to be accompanied with something very definite, because we do not want to be asked to judge the merits of any insurance company's action without giving them an opportunity of expressing themselves. I do not think it is germane to the subject we are discussing at all. The subject matter of the complaint is a different thing from the action of an insurance company.

Mr. WICKHAM: It must not be thought that the practices complained of are approved by all the banks. They are not, they are frowned upon by many who carefully avoid interfering in any way. Banks do not make written demands for insurance but borrowers have been forced to transfer insurance from a bona fide insurance agent to a Trust Company before loans could be secured from a bank.

Insurance interests do not require bank credits and are recognized as more in a position to petition Parliament than those who have to depend upon the good will of banks for credit.

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A situation has developed that will undoubtedly bring insurance interests into the banking field unless a remedy for this bank interference in insurance is obtained.

We respectfully submit that the public interest requires that chartered banks be further restricted by the Bank Act, and that they be not permitted even indirectly to carry on the business of insurance agents. Public opinion is already aroused over the immense control of affairs vested in the few corporations authorized to carry on the banking business and there can be no doubt that if the banks are permitted to carry on insurance they will soon have control.

Some illustrations follow of what we complain:

Merchants Bank of Canada—Bankers Trust Company

Twelve directors same on both boards.

Trust Company organized by bank who announced them and circularized all shareholders and clients for business. I have one of the original circulars signed by the general manager of the bank enclosing a prospectus in which insurance is announced, and it is pointed out to the clients and shareholders that they will be no doubt desirous of turning over to our associated company their business at the earliest possible date. Would it be your wish that I file that?

The CHAIRMAN: You have given the substance of it.

WITNESS: Yes. They were housed in the same building. Clerks intermingled.

Trust Company place Bank's own Insurance.

The Bank returned direct to Agent Policies given the bank as collateral by customers and stated their Trust Company would attend to renewals.

Clerks in charge of Bank policies held for loans said their instructions were to place everything with Trust Company. Bland Manufacturing Company controlled by Merchants Bank Insurance placed by Bankers Trust.

Manager of Merchants a Director of British Crown Insurance Co. Trust Company were Agents of British Crown Insurance Co.

Montreal Shirt and Overall instructed by Merchants Bank to give insurance about \$300,000 to Bankers Trust Company.

Sir Montagu Allan said at meeting of shareholders that Trust Company was arranged to get the benefit of the business for the bank which a bank has to give a Trust Co.

The Merchants Bank Manager at Victoria refused extension of credit to a very large company unless insurance with premium of \$15,000 was given to the Bankers Trust. One of our members lost this entire account.

Royal Bank of Canada—Montreal Trust Company—Montreal Agencies.

Eight Directors same on both boards.

The Howard Smith Paper Mills were directed to the Montreal Trust Company after insurance was negotiated by the manager of the bank. We hold a letter from the General Manager of the bank in which he admits he negotiated this insurance; the letter is dated the 14th May, 1921. Our agitation on subject brought offer of return of insurance provided we would desist.

Our officers were threatened by bank for statements to this effect; they told them to take action if not satisfied. They are housed in the same building. Same telephone number M. 8400 (changed this recently still appears in telephone book).

Trust Company places bank insurance.

Bank also controls Trust Company of Cuba whose business is Insurance, employed an insurance agent in Montreal and sent him to Cuba.

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Bank of Montreal—Royal Trust Company—Royal Agencies

Eleven directors same on both boards.

H. B. McKenzie at a meeting of the shareholders of the Merchants Bank said permission from Bank of Montreal was necessary before he as Manager of Trust Company could investigate Merchants' affairs.

Buildings adjoin each other. There is open communication. Trust Company place bank insurance.

One of the insurance men who wrote to President Bank of Montreal on this subject was replied to by President of Trust Company, the same man.

Bank Managers and Trust Company Managers are sometimes the same man in the same office.

On taking over Bank of British North America, a member lost the entire insurance on the bank properties to Royal Trust Company and when Merchants Bank was purchased the same happened.

Certain directors of the bank also on the Board of the Trust Company, which in turn owns an insurance agency Company, royal agencies are also directors of the Fire Insurance Company which is represented by the bank's subsidiary—Royal Agencies.

There is a large volume of insurance being directed through these interlocking companies.

By Mr. Stevens:

Q. I would like to ask this question; do the Insurance Agents Federation object to the banks placing their own insurance for their own buildings wherever they wish to place it? For instance, you referred in the last paragraph or so that when the Merchants Bank was absorbed and the B.N.A. was absorbed the Bank of Montreal placed the insurance with the Royal Trust, or whatever the trust was; surely you do not object to the bank placing its own insurance—I am not speaking of clients' insurance, but to its own insurance, wherever it likes?—A. We do, inasmuch as it is our understanding that the Anti-rebating Act deals with that very effectively. It is difficult to prove, but the Act says no commission shall be paid to any one having a direct influence or control of placing the insurance.

Q. But the Bank of Montreal, or the Bank of Commerce, there should be no objection to their placing their insurance with any firm that they choose, that is none of your business or any one else's business?—A. I did not intend to say that. The objection is to them placing the insurance through a Trust Company which we claim is shown to be an allied corporation with possibly an invisible line between the two.

By Mr. Clark:

Q. Do you suggest that it is an objectionable thing for a bank to place its own insurance through a Trust Company that is controlled, and that they should come to you or an agent and have that insurance placed independently, is that right?—A. Yes, that is what we mean.

By the Chairman:

Q. What section of the Act do you refer to as dealing with the situation now?—A. I have not got the Act here.

Q. Do you remember the section?—A. No.

Q. Could you find it?—A. Yes. This is it where you have it open, section 76, page 37 of the Bank Act, restricts the powers of the bank and says the bank may open branches, etc., and down below is the exception, "Except as

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authorized by this Act, the bank shall not either directly or indirectly deal in the buying or selling or bartering of goods, wares and merchandise, or engage or be engaged in any trade or business whatsoever."

The CHAIRMAN: Your contention is that that section which you have just read prevents them from engaging in the insurance business?—A. Yes.

By Mr. W. F. Maclean:

Q. Or in the Trust Company business?—A. Really in any business.

By Mr. Ryckman:

Q. I do not think the witness in the last question understood the question; you have no objection to the Bank of Montreal insuring its head office in Montreal at any place it likes?—A. None whatever.

Q. What you do object to is the Bank of Montreal doing business indirectly through its alleged agency and refusing a portion of the commission?—A. Exactly.

By Mr. Clark:

Q. You do not object to the Bank of Montreal dealing through the Royal Trust Co. and insuring its head office through an insurance company controlled by the Royal Trust Co.?—A. Yes, we do object to that; that is the reverse of the question that was just asked me.

By Mr. Stevens:

Q. On this point I think there is a good deal of sympathy with your view in so far as bank managers interfering with the placing of insurance on property which is collateral to loans by the bank; with that, as far as I am concerned, I am prepared to go a very long way; but to say that the Bank of Montreal or any other bank shall not place its insurance through any agent of its own choosing is I think carrying the thing too far.—A. That is not our desire, sir, only in so far as the direct agency through this Trust Company; I do not mean the Bank of Montreal any more than any other bank.

Q. Then your point there is you object to the fact of being the Royal Trust Co. and the Bank of Montreal with similar directorate?—A. Yes.

Q. But that is not the point I am making; for the time being the Royal Trust Co., or the subsidiaries are separate entities and corporations in the eyes of the law; now, there could be no objection to the Bank of Montreal or any other bank placing its own business through them if it so desired?—A. Are they separate entities? Mr. McKenzie in his statement to the Merchants Bank shareholders gave evidence that he could not move or do anything in this matter until permission was obtained from the manager of the Bank of Montreal.

Q. I think we ought to keep that point distinct—

By the Chairman:

Q. You say they are separate; legally they are separate corporations, that is what he means, although you say they are controlled by the same people?—A. Yes.

By Mr. W. F. Maclean:

Q. Where do you put your money—in the bank?—A. We have to put it in one of the banks, yes sir.

The CHAIRMAN: I remember at the 1913 revision of the Act there was a great deal of complaint about, particularly, agents of banks in the country refusing loans unless the intending borrower would give the local agent the

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insurance, and I think the committee on that day were very much against that practice, and I think it has lessened a great deal since.

By Mr. W. F. Maclean:

Q. They may dictate where the law business shall go hereafter?—A. I do not know that our complaint is very much against the managers of the banks in the country; I think it is not. The specific instances we give here are the head offices of the bank. I think there is no doubt that in this circular issued by Mr. Macarow of the Merchants Bank, it was the Merchants Bank that organized the subsidiary, the Trust Company, and there is a definite and direct interest and proprietorship.

By the Chairman:

Q. The case you refer to, the Royal Bank Trust, which is associated with the Bank of Montreal, you say it places its insurance with some insurance company?—A. Through the Royal Trust Co.

Q. It goes, therefore, to some insurance company?—A. The Royal Trust Co. as a matter of fact in that instance they have the representation in their own office for a company. Our case is directed against the banks themselves, the head offices of the bank.

By Mr. W. F. Maclean:

Q. Have you ever taken it up with the banks, your association with the Bankers' Association? There is a Bankers' Association, and you have an association have you not?—A. Yes.

Q. Of insurance men?—A. I am speaking for the Canadian Federation of Insurance Agents.

Q. Have they ever brought it up before the Bankers' Association and asked for fair treatment?—A. Yes, and we protested to them against this action, in 1921 I think it was, early in 1921, with the secretary in Toronto, and we wrote to him and drew his attention to the facts that the banks were dealing in insurance, and asked him if he cared to go into the subject with us—I am speaking from memory, but his reply was to the effect that we were wrong, that it was the trust companies that were doing it, and we pointed out it was not; our charge was against the banks, and if he cared to meet us and discuss it we would be very glad to discuss it with him. We got no further with that.

Q. Did you ever discuss it with the Minister of Finance, the present Minister or his predecessor?—A. No. I noticed this, that in Hansard 1917, volume 5, this very question was brought up by the Hon. Mr. Carvell and referred to very definitely in the House and said it would be dealt with on the next revision of the Bank Act. He pointed out where a bank had not only placed the insurance and charged the man for it, but they had deducted the premium from that man's account in the bank.

Q. What is the date of that Hansard?—A. Hansard 1917, volume 5, page 4,388-9, by Mr. Carvell.

By Mr. Woodsworth:

Q. Is he referring to the bank's own insurance there?—A. No, to insurance of a customer of the bank where the bank manager took charge of it and charged it to his account.

By Mr. W. F. Maclean:

Q. Is that a very long extract?—A. I have not it with me.

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By Mr. Kellner:

Q. The only way to meet the objection would be to divorce your insurance company and your bank?—A. It is not an insurance company.

Q. Well, your Trust company?—A. A trust company and then a subsidiary agency company.

Q. And put them under separate management?—A. We have not asked in the memorandum for exactly that, but we felt that if Parliament could grant us the relief sought for by the amendments which have been put forward that it would be ample.

By Mr. W. F. Maclean:

Q. Are the three parties the bank, the trust company and the smaller—

The CHAIRMAN: And the underwriting insurance company.

By Mr. W. F. Maclean:

Q. There are three in the proposition?—A. Yes.

Q. And they all come here for their legislation more or less?—A. I should have added perhaps that the subsidiary insurance agency is owned by the Trust Company. We have letters to that effect from both Trust Companies that we have mentioned specifically to-day, saying they own the stock of the subsidiary.

Q. So that these two companies you say which are operating are under Dominion Charter and Dominion legislation in the General Act?—A. I suppose so.

Q. And they are within the prohibition of this kind of business if it is put in not only the insurance law but the banking law?—A. I think so.

Q. And the trust company the same—

The CHAIRMAN: The section of the Bank Act which Mr. Wickham claims deals with this is as follows:

“Except as authorized by this Act, the bank shall not, either directly or indirectly,—

(a) deal in the buying or selling, or bartering of goods, wares and merchandise, or engage or be engaged in any trade or business whatsoever;”
(sec. 76, sub-section 2-a.)

Q. You claim the practice is in violation of the general principle of that clause?—A. Yes.

Mr. STEVENS: I was just looking that up. I understand the witness to suggest that he claims that the banks are violating that clause of the Act now in the practice?—A. Yes, sir.

Q. Why not take action against the banks, under this Act the banks are violating the Act?

Mr. W. F. MACLEAN: Why not Parliament interfere?

WITNESS: The greatest difficulty, to be honest, is to bring the direct evidence out against them, I mean of where the manager has interfered.

The CHAIRMAN: It would be very doubtful if that section covered the case.

Mr. STEVENS: Here is the suggestion that is being made, and while the witness is here I think we ought to discuss this, unless you have any objection. The suggestion strikes me as being really too extreme. I want to say that so that you will understand the viewpoint from which I am approaching that: “That the following be added as Section 90a”—I will read what is being suggested by the Canadian Federation of Insurance Agencies, this is what they suggest to insert as section 90a of the Act:

“Wherever any bank makes advances upon the security of any property,” etc., giving a list, “involving the giving by the borrower of

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insurance as collateral security such insurance shall be effected by or through an agency in which neither the bank nor its directors or officers, or servants have any interest whatsoever, either directly or indirectly or with which neither the bank, its directors, officers or servants have any affiliation or connection in any manner whatsoever."

Frankly I want to say that I am of opinion, and speaking only for myself, that that is positively absurd, and should not be considered, because you there provide that if any servant of a bank, a janitor or a clerk or anybody of that character, or a director, or any one has a share in an insurance company or agency, the bank is precluded from using that institution. On the face of it that is absurd. That is a frightfully wide margin from what you were saying a moment ago, the closely related trust company and bank; and I hope that wont be pressed by you as a remedy for this apparent evil. It seems if we could narrow ourselves down to this point, that no manager or officer of a bank shall have the power or the right to dictate where an insurance shall be placed which is being used as collateral to an advance by the bank, that ought to cover your case, and to that extent personally I would gladly go, but certainly I could never see my way clear to support a clause of this kind.

The CHAIRMAN: Does anybody wish to ask any further questions? Mr. Wickham, unless you have anything further to say, we will be very glad to take into consideration your representations when we deal with the clause. I do not suppose that very much more can be said than what you have said. That covers the whole case.

The WITNESS: Yes.

By Mr. W. F. Maclean:

Q. Perhaps your lawyer could modify that amendment?—A. If I might be permitted to say one word more to the Hon. Mr. Stevens, I do not think that amendment was suggested with the idea of going so far as to really tackle the janitor. It is where the influence of the banks is brought into play to obtain insurance and eliminate competition. It is not the ability of the subsidiary trust company nor the services that they grant that obtains the insurance. It is the influence of the bank that is thrown to their side.

By Hon. Mr. Stevens:

Q. You would not press this clause I have just read?—A. Not so far as its interpretation, as taken by you.

Q. As it stands. Never mind me. I said what was here.—A. You said if we were to curtail that a little but you refer to the manager and officers of the bank. Would that include the directors of the bank, in your opinion? You said you would not be willing personally—.

The CHAIRMAN: In regard to insurance, that is collateral to loans, I think if we could find an amendment that would prevent that, it ought to be done.

By Mr. Marler:

Q. I have read over your statement. Would you be satisfied, relating to this amendment, if the banks directly did not interfere with insurance?—A. Yes, sir. That is the whole complaint.

Q. Well, is that the whole complaint? You are really complaining that trust companies are subsidiary to the banks and that these trust companies do insurance business?—A. Well, that follows, does it not?

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Q. Not necessarily so. Can you, through the machinery of the Bank Act, interfere with trust companies? I am simply asking for information, because I think we might as well get this thing clear while we are here.

The CHAIRMAN: I think that is a matter of law.

By Mr. W. F. Maclean:

Q. Where did the trust companies get their legislation?

The CHAIRMAN: They are provincial.

Mr. MARLER: They are provincial, one or the other. I want to get perfectly clear, when we come to discuss this amendment, as to how it is possible for this Committee to interfere with the business of the trust company. We can deal with banks alone. That is all that is asked, inasmuch as the Bank Act is being dealt with.—A. We want the interference of the banks prevented. We think we have a grievance against the trust companies, but we did not think this was the proper place to voice that.

Q. Simply, as far as the provision of the Bank Act is concerned, you want the banks, say, by amendment or otherwise, to be prevented from interfering with the business of insurance?—A. In any way.

Q. In so far as trust companies are concerned, you are willing to leave that to any arrangement that may be made between you and the trust companies in question?—A. Yes.

Q. The difficulty I foresee is mixing up the bank with the trust companies. I am leaving the merits of the case entirely outside of consideration for the present time.—A. You mean they are legally quite separate?

Q. Yes.—A. In the case of the Merchants Bank, do you think they are legally separate institutions? Here is a statement by the Merchants Bank in which they state they are organizing.

Q. I am simply discussing the connecting link between the two. This clause is really unworkable at the present time, for an amendment to be framed to meet your views. Therefore, I am attempting to eliminate in the first place any business of insurance that the trust companies might do. If you are satisfied, I will leave it at that.—A. I think we have to do that.

By Mr. W. F. Maclean:

Q. Is it not a fact that we have already defined in rather broad terms that the banks must not engage in outside business. I take it the insurance companies want a more exact definition of that prohibition. We cannot interfere with trust companies or insurance companies, except under the Act, in any legislation, but there is in the Bank Act, according to the quotation of the witness, at the present time, a prohibition on banks engaging in other business. Just what that is I am not prepared to say, but there is some kind of prohibition, and I take it the witness wants that to be made more specific?—A. That is right.

Q. Is that not the point?—A. Yes.

By Mr. Marler:

Q. The witness does not suggest that banks should not influence business towards the trust company. You have no objection to that?—A. I do not follow you.

Mr. W. F. MACLEAN: He has not any presence here, as far as that is concerned.

Mr. SPENCER: It seems to me the witness has a criticism to make there, because from my own knowledge I know that bank managers in different parts of Western Canada have used their influence, to get their clients, when they

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have been within their power, to place their insurance along the lines they wish. I think in that respect the witness has a just complaint.

Mr. W. F. MACLEAN: I think we ought to be advised. We have our own solicitor here. He ought to look into that in order to see if he could not frame up something that would meet the view of the witness.

The CHAIRMAN: We will have to consider it carefully when we reach the section. The witness states that the banks are virtually, by a series of organizations, in the insurance business.

The WITNESS: May I read this letter from the Merchants Bank of Canada? I think it is the best explanation of the situation (reads):—

THE MERCHANTS BANK OF CANADA,

MONTREAL, 23rd April, 1919.

"To our Shareholders and Clients

"Dear Sir or Madam:—

"We are pleased to announce to you that the Directors of this Bank have formed a Trust Company to be known as The Bankers' Trust Company, which, it is expected, will open its doors for business on the 1st of May.

"The Bankers' Trust Company will occupy temporary quarters in this building—using the St. Peter street entrance—and its offices will be equipped to transact every kind of modern Trust business.

"We have been fortunate in securing the services of Mr. James Elmsly, formerly of the Bank of British North America, as manager and it will be the aim and policy of the Trust Company to render the most painstaking and efficient care to all business entrusted to it.

"This advance notice is being sent to our clients and shareholders as we feel sure that many of them have Trust Company business which they will be desirous of turning in to our associated company at the earliest date possible.

"A folder is enclosed reciting a summary of the more salient features of Trust Company service which will be at the disposal of our friends.

"Bespeaking your good-will and assistance in the building up of the new company's clientele.

"We are,
Yours faithfully,

(Signed) D. C. MACAROW,
General Manager.

"Branches of The Bankers' Trust Company will be established later at various important points in Canada."

By Hon. Mr. Stevens:

Q. What is your objection to that in particular?—A. It is our feeling that inasmuch as we consider the Bank Act—it says they must not engage in any other business. The Merchants Bank certainly discloses the fact that they are operating.

By Mr. W. F. Maclean:

Q. They have gone into the trust business?—A. In operating Trust Company business direct.

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By Hon. Mr. Stevens:

Q. To come closer to what we have been discussing, that does not mention insurance at all?—A. Yes, they include a prospectus.

Q. All that that mentions, if I might say so, is a letter to their shareholders and clients in which they suggest that they should take advantage of this trust company. That may or may not be right, but it does not refer to this question of insurance that we are discussing at all.—A. But it includes a prospectus which summarizes the services which the trust company is prepared to render, and if you will permit me, I will read what they are prepared to do. (Reads):—

“As Executor, Administrator and Trustee under wills.

“As Trustee under Bond Issues.

“As Guardian of estates of Minors and of Property of Incompetents.

“As Assignee and Liquidator for Insolvent Estates.

“As Agent for individuals, to administer their investments; for custody of Sinking Funds; for Real Estate; Collecting Rents, paying Taxes and caring generally for property entrusted to it.

“As Transfer Agent for Corporations.

“As Registrar for Corporations.

“As Collector of Coupons and Dividends on behalf of Clients.

“As Insurance Agent, Fire, Accident, Health, Liability.

“As Manager for re-organizations.

“Effect Mortgage Loans upon approved property, and manage mortgages made through other agencies.

“Advise regarding investments or act as investment agent.

“Assist in preparation of clients' income tax returns, and in every way

“Assist its clients in the direction of conserving, administering and caring for their business interests.”

Everything is included in it.

By Hon. Mr. Stevens:

Q. That is, the operations of a trust company?—A. Yes.

The CHAIRMAN: Does the witness say the banks are really in the trust business now?

The WITNESS: That is what we feel.

Mr. W. F. MACLEAN: And as to whether or not Parliament is disposed to put a more extensive prohibition on banks going into other businesses.

Mr. BEAUDRY-LEMAN called and examined.

By the Chairman:

Q. I would like to say to the members of the Committee that Mr. Leman is the general manager of the Bank of Hochelaga. It was thought by the Subcommittee, which was appointed to name the witnesses, that it would be desirable to have a representative of what we call the French-Canadian banks, that is, banks operating in the province of Quebec, which are owned and controlled there. Now, Mr. Leman is ready to answer any questions which any member of the Committee desires to ask him. Have you anything to say about the several amendments that are in the Act, Mr. Leman?—A. Mr. Chairman, might I preface my remarks by stating that our operations are not entirely limited to the province of Quebec.

Q. I did not mean that at all.—A. That although the bulk of them are in the province of Quebec, we have several branches in the provinces of Ontario, Manitoba, Alberta and Saskatchewan.

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Q. I hope you will grow.—A. Thank you, Mr. Chairman. Regarding the amendments suggested to the Bank Act of 1913, in their sequence, may I call your attention to Article 28, subsection 4, which reads as follows (reads): "A record shall be kept of the attendance at each meeting of directors, a summary thereof prepared, so as to show the total number of directors meetings held and the number attended by each director shall be sent to each shareholder, with a notice of the annual meeting, required by Section 21." I think the shareholders of the bank are entitled to know the manner in which the directors have discharged their duties. Is it the best way, by sending in the notices of the annual meeting a record of that attendance or would it not be sufficient to have that record placed before the shareholders at the annual general meeting? Some directors may have to be away on account of illness; they may wish to take a trip abroad, or by the nature of the operations of the bank they may not be located at its Head Office. It will require almost a historical sketch of what has passed during the past year with every notice of the annual general meeting. I am simply calling this clause to your attention to state that possibly some directors would resent being controlled a little like school boys, whereas their services to the bank may be and might be very valuable. It is more in the method than in the spirit that I think something might be done to improve this section. As regards Article 54, on the annual and general statements, you have heard before this Committee members of the banking community, who have much longer and wider experience on these processes and they have directed your attention particularly to subsections M and N, which deal with the appropriation accounts and contingent reserves. The remarks pertaining to Article 54 are also applicable to Articles 113 and Schedule G, as to the monthly returns. Now, these points have been fully covered as to the necessity for any bank which wants to preserve a strong position, to lay aside during good times certain reserves to take care of the inevitable shrinkage which may develop through conditions changing and becoming less favourable. Personally, it is a question in my mind why the Act should deal differently with various items of the assets of a bank. Regarding the most current, or most liquid assets, of a bank, the Act provides that you must put these assets in at their marketable value; that regarding them as investments they are to be shown at not more than their market value. Why should there be a different provision regarding loans which by their nature are apt to show a greater variation and possibly greater shrinkage? It would seem that the items which are subject to greater shrinkage should be shown also at not more than the bank estimates that asset to be worth, and it is my impression that the statement would be easier to understand, would be more accessible to the great mass of the people who have to look into these statements and reports, if the items of loans were shown after making provision for the shrinkage. Otherwise there might be some confusion as to whether the amounts set aside on the liability side are or are not sufficient to take care of any possible shrinkage. And moreover there is this feature about it that the mere bulk of amounts set aside on the liability side for appropriation and contingent reserve, is apt to impress people; whereas the actual condition would not be affected by the mere size of either the contingent reserve or the appropriation account; and for that reason I believe that the statements would be clearer and would convey a better idea as to what is, in the opinion of the responsible officers of the bank, a true and correct statement of its affairs; and these reasons, in addition to those which are already set forth in the memorandum you have before you, would in my opinion militate against leaving the sections M and N as they are now.

While we are dealing with this matter there is the question of overdue debts. That has also been very thoroughly dealt with I think Mr. Chairman. And the fact that overdue debts are not necessarily bad debts. As a matter

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of fact there are constantly in the Current Loans Account, or in the Loans Account, many items which are not as liquid as those shown in the overdue debt statement. You may have a perfectly good note which was due yesterday, which is past due to-day; secured by good endorsers, with good collateral security. Nevertheless that is an overdue debt.

Secondly, although an account is in liquidation, you may have perfectly solvent guarantors. Your assets, or the assets pledged to the bank, are in a process of realization, and that is in a great many cases, in practice, a more liquid collateral security than you would have in a loan which is current; and the interpretation—at least the current interpretation—of overdue debts, is not the correct one, and in the arbitrary tests which are being placed regarding the monthly returns, I believe there would be a great deal of confusion and possibly hardship.

By the Chairman:

Q. Do you have to report overdue debts now?—A. Yes, Mr. Chairman.

Q. But it is your own option as to what you shall designate as an overdue debt?—A. I believe, Mr. Chairman, there is a variety of opinion as to that. I know in our own case an overdue debt is an overdue debt. The fact of the note, the instrument, which represents the debt being overdue, regardless of the security back of it, is pleaded as an overdue debt. There is some confusion, I believe, as to the way overdue debts are interpreted.

By Mr. Coote:

Q. Would the witness tell us whether a note which is renewed is an overdue debt?—A. No, a note which is renewed is not an overdue debt.

By Mr. Kellner:

Q. If the interest has not been paid for over a year, it is overdue according to the Bank Act?—A. If a note due to-day is not paid to-day, it is overdue.

Q. No, I say if the interest has not been paid within a year, then it is overdue according to the Bank Act.—A. According to the new provisions of the Bank Act, it would become an overdue debt; or if you are in the process of realizing on the collateral security that you have on a note, it becomes an overdue debt, notwithstanding the fact that your collateral may be very much in excess of the actual amount necessary to pay the debt.

By Mr. Coote:

Q. Do you approve or disapprove of the new clause in the Act which makes that an overdue debt, if the interest has not been paid for over a year?—A. I disapprove of it, because the inevitable effect is, if we are penalized for showing forbearance, and I think the natural tendency would be, to be more severe than we are, whereas the security may be perfectly good and satisfactory.

Q. In regard to loans which are made to farmers to go into the cattle business; do you make loans to these men for that purpose and make them on three months' notes, and if so, is it a proper way of financing a cattle man if this suggested provision is left in the Act, that a note on which the interest has not been paid for a year should be considered as an overdue loan? Because the cattleman must have this loan in many cases for a period of three years before he can actually produce the cattle to take up the loan?—A. I think that point has arisen and arises every day; that the fact of the interest not being paid for a year or even longer, whether it is the cattle business, the lumber business, or any kind of business, is not as far as the statement of the bank is concerned, as far as its position is concerned, of great importance. The great importance is as to the security back of that note; whether it is overdue

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through conditions, as you have mentioned for the cattleman, or due to other conditions, is not in my estimation of very great importance.

The CHAIRMAN: Mr. Coote, what is the number of the amending section in which the provision occurs as to the interest not being paid for a year?

Mr. COOTE: It is subsection 5 of section 113, Mr. Chairman.

The WITNESS: Well, gentlemen, I do not think it is necessary to stress it any stronger. It is a very important feature that the banks at least be not penalized for assistance given in cases of hardship, provided the security is good, that the loans are guaranteed satisfactorily. I am afraid that the working out in practice if the banks were penalized on that account, that the effect on general business, where conditions have been difficult, would be most unsatisfactory.

By the Chairman:

Q. You would almost be compelled to sue on these things when they became overdue?—A. We could not keep a large amount of those overdue debts, and we would really be forced into hastening the realization of assets, to the detriment of the parties who held those assets.

By Mr. Coote:

Q. Have you as a matter of fact a very large percentage which would be called overdue if this new provision is inserted in the Act?—A. Well, I do not think we would be the institution that would suffer most in that comparison, on account of the volume of our operations in various parts of this country; but I know that there would be a substantial volume of Western business, of farmers' business, and a certain portion of lumber in the Eastern sections, which would come in that category.

By Mr. W. F. Maclean:

Q. Would it cover the cases in the Merchants Bank which were called "frozen" assets? And which were more or less renewed and it brought the bank to its crisis? Would there be any way of disclosing the existence of these loans and their rather uncertain character, to the shareholders and to the public? How could a cure be found for the condition of affairs that is said to have brought a most excellent bank and a bank that was serving the country over a broad expanse of territory into trouble, and prevent it occurring again? In other words, what can you put in the returns that would indicate that the bank was on a wrong line, and that some one ought to interfere, and if the Government had that information, perhaps they could interfere by some system of inspection?—A. We would have to understand thoroughly what you mean by a "frozen asset."

Q. The bankers have used that phrase in their book. Perhaps you could explain it. I have a document of the Bankers' Association dealing with that.—A. You can consider as a "frozen asset" a loan which has been running for quite a number of years; although it is secured by perfectly good collateral, it may be considered as a frozen asset.

By the Chairman:

Q. It is frozen because it is not liquid.—A. Because it is not moving; it is not liquid; that does not mean that the collateral is not perfectly good, and if you were to force the collection that you could not get your money back.

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By Mr. W. F. Maclean:

Q. Was there something in the Merchants Bank that was not good?—A. I am afraid that in the case of the Merchants Bank there were actual losses sustained.

Q. Is there anything that could be put in the Bank Act that would prevent those losses or have them checked up at an earlier stage of the situation?—A. If you insist upon the responsibility of the proper officers of the bank, that they state what is the actual value of their loans, then you have as good a protection for the public and for every one concerned, as you can ask.

Q. Is that in the Act now?—A. It is not in the Act now. It is in practice now, but it is not in the Act now.

Q. Have we an amendment, Mr. Chairman, in that direction, before the Committee yet?

The CHAIRMAN: You mean to prevent failures like the Merchants Bank of Canada?

Mr. W. F. MACLEAN: No; to have a statement, as to where the officers have failed to protect the bank, as the witness says.

The CHAIRMAN: There are clauses in with that end in view, I have no doubt, Mr. Maclean, yes.

By Mr. Coote:

Q. If I could refer back to the statement of the witness, I would like to ask him whether we might infer that most of these loans which would be past due under subsection 5 as it is now proposed on page 56, would be in Western Canada? I think we might infer that from your remarks, but I would like to be sure?—A. I would not be prepared to answer that question immediately. I know that there would be several of them in Western Canada, but I would not want to make the proportion without looking at the exact figures.

Q. How many branches have you in the West; that is, in the three Prairie Provinces?—A. Twenty-seven.

Q. Would you say that you have had more losses in Western Canada than you have had in your other business outside of that, or a larger proportion of loss?—A. Proportionally, in the last few years, yes.

Q. Can you give any particular reason for that?—A. In a great many of the districts where the heaviest losses have been sustained, the communities have suffered from bad crops from one cause or another. I have particularly in mind in answering your question, southern Saskatchewan.

Q. What would you say was the average term of years that you leave a manager in charge of one branch?—A. I could not answer that question off-hand, but, as far as I can remember, it is our endeavour not to change managers unless it is to give them the desired promotion, which they are all after.

Q. Would it be customary in your bank, to have five managers in one branch in a period of thirteen years?—A. I daresay in practice that it might work out to about that figure, that they would have been shifted from one point to the other, so as to bring out that proportion.

Q. Do you think that might possibly account for some of the losses which the bank might sustain?—A. Only in a very small degree. I think the losses are due generally to conditions which are not due to the personal element of the manager.

Q. Do you not at some of your branches, where you change managers so often, have one bad loan say to forty good ones or fifty good ones, where the general conditions do not account for those losses, or do all your losses occur largely in one or two branches, or in certain districts; do you have a general

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loss?—A. There are certain districts where the losses are very much greater proportionately than they are in other districts, due to conditions; other districts, most all districts, occasionally show losses.

Q. Do you consider that a western country manager who is loaning to farmers almost exclusively should know a little bit about the business of agriculture, or should his knowledge consist simply of bookkeeping?—A. I certainly think he should become conversant with conditions in the West, and we would not think as a matter of practice of sending one of our clerks in the east to place him in charge of a branch in the west. He would have to go through the process of being in the various positions of teller, accountant, assistant manager, etc., before he would be placed in charge of a branch, in order that he may gain knowledge of local conditions.

Q. In other words you would think he should know wheat from oats when he sees it?—A. A great many other things, too.

Q. I understand you have a great many cases of overdue loans in Western Canada; do you raise the rate on a man's loan because it is overdue?—A. No.

Q. Do you make a practice of that?—A. No.

Q. Might I ask how many directors you have in your bank?—A. We have seven.

Q. Where do they reside, at the head office of your bank, or are they scattered over Canada?—A. They reside in Montreal.

Q. You have no directors in Western Canada?—A. No residing directors in Western Canada.

Q. For your knowledge of the conditions and the desirability of loaning in Western Canada you are dependent on the reports of your officers, not directors?—A. Not solely on their report; we have located in Edmonton and in Winnipeg two assistant superintendents who have been living in the West for a long number of years, one of them was born in the West, and our president and vice-president have both visited our western branches a little over two years ago, now close on to three years ago; a little less than two years ago I travelled myself and visited practically every one of our western branches to become acquainted with the managers, and to become acquainted with the conditions of the province they had to deal with.

Q. What salary do your directors receive from the bank?

Mr. MITCHELL: I don't know if that is of so very much interest in connection with the amendment to the Bank Act; I do not suppose it matters very much if Mr. Leman should answer that question, but I cannot see that it is of public interest; and it seems to me you are going into the affairs of the internal economy of the bank, and that really has not any importance in connection with the amendments to the Bank Act or in the public interest throughout the province.—A. Do you wish that information? I have no objection.

The CHAIRMAN: You have no objection, all right.

Mr. COOTE: The witness does not need to answer that question unless he likes; it is immaterial.

Mr. MITCHELL: It was the principle of the thing I was raising more than anything else, but if the witness has no objection—

The CHAIRMAN: It is hard for me to decide that. It is not an important question, but if it is asked it may be important for the banks to decline to answer it and the witness says he is willing to answer it; so let it be answered.

Mr. COOTE: Before the witness answers, I am making this statement simply because Mr. Mitchell has raised the point, my only reason for asking this question was to find out why these men are directors of the bank. I think the statement has been made here that the fee of directors is very small in some

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banks; possibly it is; and if the witness would say the fee was only a small one I would be quite satisfied. Of course I am going to leave it to the witness to say what he likes; but I am not going to press him to state actually what the salaries are if he has any reason.

By the Chairman:

Q. Are your directors paid salaries or fees?—A. No; the total amount allotted by the shareholders for the remuneration of the president and vice-president and seven directors is \$15,000 a year.

Mr. W. F. MACLEAN: Perhaps if they paid them more they would make more money.

By the Chairman:

Q. That covers the travelling expenses?—A. That is the total amount that is placed at their disposal and that they can use, and that covers attendance of meetings, twice a week, some of which are long meetings.

By Mr. Coote:

Q. You would consider that these directors are not paid an excessive fee at all?—A. I would not think so, and if they were actuated solely by the consideration of the fees paid I doubt very much if they would act.

Q. What, in your opinion, is the reason which causes these men to accept the position of directors, or rather to act as directors of the bank, if it is not a pecuniary reason?—A. I think that a great many of them are actuated by desire to render public service in this form.

Q. That is the only reason you would care to give?—A. I think the position of a bank director carries a certain amount of prestige in the community.

Q. Something like a Member of Parliament I suppose?

The CHAIRMAN: There are many men in Canada who would spurn a seat in the House of Commons, but who would gladly take a seat on the directorate of a bank, but perhaps not from the motive you are suggesting. It is regarded as a position of honour in the community; some men like that kind of honour and others do not.

WITNESS: It is a position of trust.

By Mr. Coote:

Q. Does it not put these directors in a position where they can secure, possibly not for themselves but for a company in which they are directors, a larger loan or a greater stability in borrowing power than if they were not directors of the bank?—A. I don't think so either in theory or in practice. In practice I have not found it so; I have found it exactly to the contrary; and I know that, so far as we are personally concerned, the business of one of our directors which we would like to have is not with our bank, and in regard to another director when he was in active business we would have welcomed his business but could not get it, precisely for the very reason that they did not want to lay themselves open to any criticism of using their position to further their own interests.

Q. Do you not think you have an exceptionally fine Board of Directors?—A. I do think so.

The CHAIRMAN: Mr. Coote, I don't think that gets you anywhere; put your question right straight, if there is anything you want to know; go ahead.

Mr. COOTE: I am going to quit there.

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By the Chairman:

Q. Do you want to say anything about the sections about the audit?—A. There is one point here, gentlemen, regarding section 56. The new provisions would make it necessary for the auditors of a bank to be residents of Canada. I would just like to call your attention to this feature of it. When the question of auditing came up we had that very problem to solve; we chose, that is some ten years ago, two different firms of auditors, one Marwick, Mitchell & Company, which was a firm of international operations, and one having greater local knowledge possibly, the firm of Gontier & Midgley. We thought as our statements went the world over to our various correspondents in other countries, that it was of some importance to the bank to have a statement audited and verified by parties whose names were known, and at the same time we were getting the benefit of the local knowledge of the other firm of auditors. I think this condition should be retained, if possible, not only from the point of view I have just called your attention to, but also on account of the benefit that the bank itself may derive from a firm of auditors who have an experience the world over. When we have shortcomings, and we have, we want our attention to be pointed to them, and we think we have greater security by having firms who can direct our attention to improvements in our methods, to betterments, or to any improvements which can be brought about in the system, and I think as far as we are concerned we attach considerable importance to that feature of it. The next item is the three years limitation of the services of auditors. I dislike very much, Mr. Chairman, to take up the time of this Committee; this has been fully dealt with by other parties, and I think you appreciate the objection of changing all the time not only from the bank's point of view, gentlemen, but to a certain extent also from the client's point of view. These gentlemen are placed in possession of information of a very confidential character, and I think to a certain extent the business community should have a measure of protection on that score by avoiding having too great a number of men going through the banks and the clients' affairs. There is one feature to which I would like to call your attention, that is sub-section 11 on page 25:

"It shall be the duty of the auditors to report to the general manager and to the directors in writing any transactions or conditions affecting the well being of the bank which are not satisfactory to them, and which in their opinion require rectification, and without restricting the generality of this requirement they shall report specifically to the general manager and to the directors from time to time upon any loans exceeding one per cent of the paid-up capital of the bank, which in their judgment are inadequately secured, but this provision shall not be construed to relieve any director from the due and proper discharge of the duties of a director. The report shall be transmitted or delivered by the auditors to the general manager at his office and to each director at his last known post office address."

I hold no brief to defend the clients of all the banks in this country, but I think this latter paragraph is open to serious objection. Here is a director that is away for some reason or other, the auditors send in a report dealing with a specific account to his home or office address; it is opened by his secretary, by his confidential man in one shape or other; the credit of that man, if there is any indiscretion committed, is apt to be ruined. It would seem sufficient if the auditors should advise the Board, or advise rather the directors that they are forwarding to the Board a report on accounts which in their opinion are not satisfactorily secured, and then the attention of the director is called to the fact that he must look into a special report. The way this is laid out is, I am afraid, apt to cause serious injury in a great many cases. There is the provision as

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regards the outside work for auditors. Gentlemen, in actual practice here is an account that is apparently not in a satisfactory condition; is it advisable to have two or three parties becoming conversant with the condition of that account? Is it not better that the firm of auditors or the auditor who is already conversant with the condition of that account should be called upon to go ahead, continue his examination on the client's own premises, with the full information at hand, rather than having the best men outside of the bank's audit or outside of the client's audit? It would seem reasonable as far as possible that all information of that character should be kept in the hands of as few men as possible.

By Mr. W. F. Maclean:

Q. Have you a trust company associated with your bank?—A. We have a provincial charter; the bank has nothing at all in it, but we have a trust company in which the directors have had some shares, but it has not been used to any extent, or its services availed of. It is in existence yet. I do not think we have had any positive complaint on whatever we have done.

Then article 88 and article 88a, that is the lien of the section 88.

The CHAIRMAN: Do you wish to say a word upon that?—A. Except that in actual practice I think the provisions of article 88 have rendered considerable and valuable service to this country. As far as we are concerned the operations of section 88 are concerned mostly with lumbering operations, with the lumber, paper, pulp industries, where the large advances which are necessary almost every year for the lumbering operations are covered by a security under section 88; aside from that we have had some experience in the shoe industry, making advances on the raw materials used in the manufacture of shoes. Personally, I believe the great majority of all manufacturers and all the business community are honest men, and they have used section 88 as it was intended by Parliament; when they have obtained from the banks money on the security of those raw materials, they have paid both their labour to secure their raw materials or other manufacturers who were producers of those raw materials. I do not know that the banks themselves are very much concerned in this clause 88, except in so far as the business community as a whole is affected. It is a clause which requires very careful attention, or rather the operations under that clause require very careful attention, constant attention, and restrictions placed in the way of using this clause 88 I think will react on the wrong parties. I am afraid we will be clipping the wings of the wrong bird, that the first people to suffer from that will be the manufacturers and ultimately precisely the people who are complaining about those provisions. It has possibly caused some hardship in some individual cases, but during a great number of years and every day it has helped those very people to dispose of their goods. We must realize that the accumulated wealth in this country is not so large as it is in other communities and that a great many of our concerns, particularly of the smaller sort, start out in business, in a very legitimate business, with a small or relatively small margin of working capital and this has enabled the banks to go and help them along the line of developing production, particularly our great natural resources.

Mr. W. F. MACLEAN: I think the banks have done a lot of good work in that way.

The WITNESS: I think so myself

By the Chairman:

Q. I just want to ask you this question: other bankers preceded you in appearing before the Committee, and they stated that doing business in the West is more expensive than in the East. I know some of the western members who are members of this Committee do not accept that. Have you anything to say about that?—That comes up in the question of interest of 7 per cent being

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charged out there?—A. The cost of doing business in the West is higher, materially so, than it is in the East.

Q. Are your salaries higher?—A. Salaries have to be higher; living allowances have to be higher and the general living conditions are higher.

Q. Is there a greater risk?—A. I am not now dealing with the element of risk. I am dealing with the element of operating expenses.

Q. Overhead costs?—A. Overhead costs; fixed charges; barring losses, in the volume of business.

By Mr. Mitchell:

Q. Do you say barring losses?—A. Barring losses. The straight operating expenses are higher in the West than they are in the East.

By the Chairman:

Q. I suppose the volume being smaller your overhead is larger?—A. The overhead is larger. There is a minimum amount, below which a man cannot be paid, and that tends to increase the relative cost of operation.

By Mr. W. F. Maclean:

Q. I would like to ask the witness whether his bank avails itself of rediscounting with the Federal Government here.—A. We do not, and have not for several months. I would say about the middle of last year.

Q. Might I ask you, would the National Reserve Bank system, as applied to the United States relieve the situation here in Canada, if we had a National Reserve Bank system in Canada, especially on loans, to make a greater provision for rediscount of securities. Would it help the farmers in the way that the legislation recently passed in the United States helps the farmers and all classes of the community in our country?—A. Well, Mr. Maclean, under present conditions, I do not know that the facilities of a rediscount bank would be necessary at all. At least, as far as we are concerned, we would not find it advisable to avail ourselves of those facilities, as a matter of actual practice. I do not know whether you are asking me a theoretical question as to the advisability of the Federal Reserve Bank.

Q. We had a witness here to-day and yesterday who told us his opinion of the National Reserve Bank system in the United States and he practically said that it was an advantage in the United States and that while it had been objected to at the start by the banks, they later came to use it and approve of it. Do you, as a banker, think there is need of a bank of rediscount, of a National Reserve Bank system in Canada?—A. Well, of course, we had the Finance Act of 1914 as a safety valve. Whether the Finance Act should be done away with and replaced by a system resembling that adopted by the United States in their Federal Reserve Banks as a matter of principle, there is a great deal to say, but as a matter of opportunity, for the time being, I am not prepared to give you a definite judgment or a definite opinion. The facilities of the Federal Reserve Banks in the United States have been availed of to a very large extent during the period of their war financing, during the period of great business activity. At the present time it is an open question as to whether some of the banks do not find that a very expensive load to carry. The Federal Reserve Banks have been able to secure profitable operations during the period I mentioned, of very great business activity. I have reason to believe that its operations are not so profitable now, when the banks do not require any additional facilities than those they have themselves. On the contrary, in the United States, the new legislation is in the direction of using the National Reserve Bank system for the flotation of securities, securing money for the

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relief of farmers, of drovers even, or raising money to take the place of mortgages, as in loans made by loan companies. All that financial service is being brought, but the people of the United States now, by the assistance of the National Reserve Bank system—and it is rather surprising by the evidence, and you will find some of the evidence as given in the Agricultural Committee last week, of the extensive financial services that cover—to use the phrase of one of the members of the Cabinet of the United States—provision is made for the covering of a barren area of credit that in the past has not been relieved by existing banking facilities. Well, I understood that the Government of the United States was contemplating giving assistance through an issue of bonds or securities to the farming community in the United States. I was not aware it was the intention of the Government to place the Federal Bank facilities at their disposal. That is practically as I read it, and the practice is in that direction.

The CHAIRMAN: Is there any member of the Committee who wishes to ask Mr. Leman a question before he leaves.

By Mr. Ladner:

Q. I would like to ask him about Section 156-A. That Section, you see, relates to persons receiving deposits securing licenses from the city, town or other municipal division in which they carry on business. In your opinion as a banker, do you think it better that these licenses should be granted by these cities or towns, or should they be granted by the Finance Department under some general fixed policy?—A. Well, I would think that would be, Mr. Ladner, largely a question of opportunity. There have been established in a great many sections, small communities of the province of Quebec, local organizations, in the form of co-operative societies, who do take in deposits and loan money to their members, but I do not know whether it would be advisable for the Government to assume the responsibility of licensing every one of these individual corporations, and it might be well left to the responsibility of the local Governments.

Q. Take the question of large departmental stores, which carry on business in different cities and receive deposits. In your opinion would it be advantageous that there should be some fixed definite policy. There the licenses are granted through the Government or through the Finance Department. Should each individual city determine the matter?—A. Well, I think by the nature of those operations that the business would be limited and that it would be well to leave it to the local authorities.

The CHAIRMAN: Do they do that? Do departmental stores receive money on deposit?

Mr. LADNER: Yes.

The CHAIRMAN: Not to be chequed against, I suppose?

Mr. LADNER: Yes, they have the right, I understand, to cheque against deposits, but the real purpose is to place the money there on the contingency that some day they will give an order.

The CHAIRMAN: It is like the man who goes to a city hotel and is afraid of being robbed and puts his money on deposit in the hotel?

Mr. LADNER: I had intended, when the matter was under discussion in the Committee, to argue the technical points of it.

The CHAIRMAN: I see your point.

Mr. LADNER: Beyond that, it is a matter of whether it is better to have those licenses granted on some determined, well understood policy throughout

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Canada, with respect to banks, or whether you should leave it to the local authority to be a law unto themselves.

The CHAIRMAN: The following Subsection attempts to lay down a policy. I suppose the draftsman was trying to meet the situation that developed in Winnipeg last fall, and he was not sure how he could do it. He thought it best to let the towns take some responsibility. I suppose that is better than the Government. Your view is, it is not advisable to introduce the Finance Department.

The WITNESS: I do not know what responsibility would be involved for the Government.

By the Chairman:

Q. You think the municipal authorities could best determine the thing?—A. It is decentralized, as far as possible.

The CHAIRMAN: We will have to consider carefully the drafting of that, when we come to consider it. I think undoubtedly it will have to be changed.

By Mr. Spencer:

Q. As I understand it, the witness has banks mostly in Quebec.—A. Yes, The greatest number of our branches are in the province of Quebec.

Q. What is the amount you allow on deposits?—A. The interest?

Q. Yes.—A. 3 per cent.

Q. The same in the East as in the West?—A. Throughout the country.

Q. What is the amount you charge for commercial credits in the East?—A. Well, that is an individual question.

Q. What is the average on commercial credits?—A. The average is a very difficult thing to establish. If you want our average rate on loans throughout the country, I can give you that, but as far as the individual account is concerned, it depends very much on the nature of the account. It has indirect advantages. There are accounts at $5\frac{1}{2}$ per cent, 6, $6\frac{1}{2}$, 7 per cent. It depends on the value of the account.

Q. What do you charge to agriculturalists in the East?—A. That would depend very much on the man's account. Here is a farmer in the East who has had money on deposit for seven or eight months in the year, and he wants temporary accommodation for two or three months. If his account had been valuable he would get his money at 6 per cent; in other cases, at 7 per cent.

Q. I suppose you would not loan at 8 or 9 per cent in the West to farmers?—A. Very few loans, although our average rate of interest in the west, in the three Prairie Provinces, is below 8 per cent.

Q. That is, taking into consideration what we might call commercial loans?—A. Yes, but the bulk of our business is in the rural districts especially. There are a few places like Winnipeg.

Q. You mentioned loaning to farmers in the East for seven or eight months. Is that the average term you loan for, or do you make it for four or five months?

—A. The loans are not made in exactly that way. The farmer who wants bank accommodation will call on his manager and give him an estimate of what his requirements would be for the next twelve months, and the farmer, as long as his position is not impaired, is entitled to that credit for a period of twelve months, when through a demand from the manager he may renew his credit line.

Q. How long does his note call for? Is it a four or five months note?—A. The actual note on the credit may be for three or four, sometimes six months, but the credit is generally for a twelve months period.

Q. Do you think, considering that the farmer can only turn most of his business over once a year, that it is in the best interests of agriculture that

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he has to sign a note for four or five months?—A. We do not find in actual practice that there is any great hardship in asking the farmer to come back and see his manager to talk matters over with him at every period of four months, say three times a year. They are apt to get better acquainted and see how things are going.

Q. That of course means he is charged compound interest?—A. Yes.

Q. Is it the custom in your bank to charge what we usually term "banker's discount", deducting the interest before the principal is given?—A. Discounting notes?

Q. Yes.—A. Sometimes we discount notes. Sometimes the interest is added to the note.

Q. It depends upon the customer?—A. It depends on the local demand and the conditions and the situation of the man.

Q. In answer to a question of Mr. Coote's you answered you had a fairly regular change of managers. Do you consider it is a good thing to change managers, particular in the country districts and so on?—A. There are two points to consider. There is the question of the community served by the manager. There may be some inconvenience in changing the managers, but there is also the legitimate ambition of the bank employee who, when opportunity offers, desires to improve his position and to be moved to a larger centre, where, by the nature of things, he may command a larger salary.

Q. I have known a good many districts in my province where the manager had just got nicely acquainted in a district, when he was removed and another one comes in who knows nothing at all about the conditions.

The CHAIRMAN: Is there a feeling of hurt in the West that way?

Mr. SPENCER: Yes, there is.

The WITNESS: I think the inconvenience of what you mentioned would be very much larger if our business were not so highly centralized. All the information pertaining to every customer in the bank is centralized at Head Office, and the change of manager does not alter the credit which has been authorized to any particular party. It is not left to the discretion of the manager, except for very small amounts, to change those. He has to carry out the authorization which he receives from the Head Office, whether it is one man or another, provided the position of the customer is not impaired. He is in the same position under one man as under another.

Q. That would depend on the state of the money market. Sometimes a man finds his credit cut in half but his actual assets are not reduced?—A. It has not come within my knowledge that owing to the state of the money market, loans or credit were curtailed, no lines of credit that we granted.

Q. Supposing a man wanted a line of credit?—A. That class of business is infinitesimal in comparison with the bulk of our business.

The CHAIRMAN: Some of them may have lots of brains, but not enough to get at the needs of the particular community and would not have them, either, for fifty years.

By Mr. Spencer:

Q. In making up your balance sheets, do you write your buildings up at the market value, bank buildings, bank premises?—A. Bank premises are taken at cost, less amounts written off from year to year.

Q. On the buildings do you allow depreciation?—A. There are two items to be considered in bank premises. There are furniture and fixtures, such as safes and bank fixtures, which are written off regularly in the cost of operating a branch, ten per cent a year. Then there is the general depreciation

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of the buildings, which is a matter of examination from year to year, what conditions warrant. There is no set rule as far as I know as to the depreciation on buildings, provided always that they are entered at not more than cost, and you must also take into consideration that all banks have buildings put up many years ago which are undoubtedly worth more now, could not be duplicated for the same price that they were put up for then.

By Mr. Mitchell:

Q. Have you got anything to say about the new provisions suggested in the new Act, requiring the signature of the president on the returns to be made to the Government?—A. I think the new provisions are very drastic, to the point of rendering it possibly hazardous to occupy any position of trust in a bank. The statements given out by a bank are, by the nature of the operations of the bank, the collective returns of many parties. We cannot get away from that fact. Head office returns must be based upon branch returns. The branch managers must give us correct statements if we want our head office to give out correct statements. Now, mistakes happen in the best regulated families, and if an officer, whether he be president, vice-president, or general manager, exercises diligence, and through no fault of his, a mistake creeps in, it does look a little hard to make a criminal of him, when he has neither been negligent nor dishonest.

Q. In other words, what you would like to have in there is a declaration that would hold the person signing it responsible for the act that he commits.—A. Absolutely, and I think on account of their positions of trust, that bank officers should use all possible care and diligence and efficient methods in order to give the public correct information, but beyond that I think it is impossible to go, because there are human failings in all undertakings in this world.

The CHAIRMAN: I assume there is nothing further to ask Mr. Leman, and we are very much obliged for his attendance before us to-day. To-morrow we will hear first Mr. McLean of New Brunswick. Mr. Caldwell, you will please be present. I assume there will be other witnesses. I do not see any reason why on Thursday or Friday we should not proceed to end our work, as far as the Bank Act is concerned.

Mr. MITCHELL: What other witnesses have we?

The CHAIRMAN: I think the department wishes to call an accountant named Mr. Edwards, and some of the members of the Committee have suggested to me that Mr. Clarkson, a chartered accountant of Toronto, should be here to help us in our deliberations. But our Committee is so small this afternoon that it is hardly fair to consider it.

The Committee adjourned until 11 o'clock a.m., Wednesday, May 2, 1923.

WEDNESDAY, 2nd May, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., the Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Order, Gentlemen. We are now reaching a stage in our consideration of the Bank Act when the end is in sight, and I hope that by Monday or Tuesday of next week we shall have disposed of the Bill.

Mr. W. F. MACLEAN: Do you mean after going over the Bill?

The CHAIRMAN: Yes, fully, I should think.

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Mr. SPENCER: Do you think we can do that in two or three days?

The CHAIRMAN: I should think so, Mr. Spencer. At least let us have that in mind.

Mr. W. F. MACLEAN: When will you get through with your witnesses? This week?

The CHAIRMAN: On the Bank Act, I think so.

Mr. SPENCER: How many witnesses have you still to call?

The CHAIRMAN: I will deal with that. Some members of the Committee have asked that Mr. Edwards, an accountant of Toronto who had something to do with respect to the winding up of the Merchants' Bank of Canada, be called, and also that Mr. Clarkson, an auditor of Toronto, who appeared before the Committee ten years ago, be called. If it is the desire of the Committee that these two gentlemen be summoned, I shall do so to-day and ask them to come as quickly as possible and as early as we need them. Is that acceptable to the Committee?

Mr. GOOD: Mr. Chairman, do you propose to go into the question of the Merchants' Bank and make some investigation?

The CHAIRMAN: No.

Hon. Mr. FIELDING: Merely they are asked to give their experience as auditors, that is all.

Mr. W. F. MACLEAN: Should we not have those facts?

The CHAIRMAN: I do not think so. We would be here for a year or so if we went into that thoroughly.

Mr. W. F. MACLEAN: But we are amending the Bank Act and a catastrophe has occurred under the Bank Act and is that not to be referred to?

The CHAIRMAN: Incidentally it is. There is an issue of course.

Mr. SPENCER: Are there any other witnesses?

The CHAIRMAN: Just those two. Is it acceptable to the Committee that these two gentlemen, Mr. Clarkson and Mr. Edwards, be summoned?

Several Hon. MEMBERS: Carried.

The CHAIRMAN: Then that is carried. It was the desire of the Committee, I think; at least I advanced the idea and it seemed to be acceptable to the Committee, that while we are considering the most contentious of the clauses not disposed of we should have with us Mr. Bogert, of the Dominion Bank, and Mr. Neill, of the Royal Bank, before the Committee to assist us particularly on these clauses, if the members wanted them; and if that is still the desire of the Committee, we can have them I am sure almost any time. Other than these two gentlemen, I do not know of anyone that we want to hear.

Mr. GOOD: Mr. Chairman, I was under the impression that there were three or four who were accepted some little time ago, but who have not appeared yet.—Mr. Baker, Professor McGibbon, of Alberta, and Professor Swanson.

The CHAIRMAN: Mr. Good, do not confuse the Bank Act with Mr. Irvine's resolution. Mr. Swanson is at the present time ill and he cannot come here. He may come later. I do not think Mr. Baker's name was definitely decided upon.

Mr. SPENCER: We were led to understand, Mr. Chairman, by our representative on that sub-Committee, that Mr. Baker was accepted.

Mr. HANSON: If you refer to the resolution, I do not think his name was included among those accepted. Mr. Swanson was.

The CHAIRMAN: His name was discussed by the sub-Committee, but they did not decide that it was necessary or desirable to have him brought here.

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Mr. SPENCER: Our representative brought back word that he was accepted. His name has not been mentioned in this Committee, but you said you had other names you would put forward later.

The CHAIRMAN: Mr. Good, you understand that so far as Professor Swanson is concerned, he is not immediately available, but he can come later. I am merely talking about the Bank Act. I think we should dispose of that. Not necessarily dispose of Mr. Irvine's resolution.

Mr. GOOD: Mr. Chairman, I understood that Mr. Baker was to give evidence on the Bank Act and not in connection with this other inquiry. That was my understanding.

The CHAIRMAN: If Mr. Baker's presence is desired, he can be summoned?

Hon. Mr. STEVENS: It would save a lot of time if the members of the Committee would read Mr. Baker's book, which sets forth his views.

Mr. COOTE: Mr. Chairman, may I ask what is the great hurry about putting this Bank Act through? What do we come down here and get paid \$4,000 for if it is not to go over such legislation as this very carefully. It is only done once in ten years. I understood the Minister of Finance to say there was no intention of inquiring into the reason of the failure of the Merchants' Bank. It is hard to hear in this room and possibly I did not correctly understand him. I think the people of this country ought to know why the Merchants' Bank failed. And they do not want to see the Bank Act renewed for ten years until we know the reasons why the Merchants' Bank failed.

Hon. Mr. FIELDING: I did not say there should be no investigation. I understood someone to inquire the reason for calling Mr. Edwards here and whether it was for the purpose of going into the affairs of the Merchants' Bank. I said that Mr. Edwards, if he was called, would merely give his experience as an accountant. I myself suggested his name, but I did not have in mind his relation with the Merchants' Bank. I have no objection to an inquiry into the affairs of the Merchants' Bank, except this: we should ask anyone who wants to talk about the Merchants' Bank what suggestions he has or what clause he wants to put into this Bill to remove these troubles. I would like to have said to Sir John Aird and to Sir Edmund Walker, you talk of the Merchants' Bank not being allowed to fail; what clause do you suggest should be put into this Bill to meet that case? Anyone who has anything useful of that sort to propose should be welcome, but I do not see any good in going into the history of the Merchants' Bank unless it be to show how we can amend this Act. I do not see that any general talk about the Merchants' Bank will get us anywhere at all. Any amendment can be proposed without waiting. Anyone can do it now.

Mr. W. F. MACLEAN: It is the duty of the Minister of Finance of this country to deal with that question and to come with some recommendation in connection with it. I have great respect for the policy of the Minister, and I have also great respect for the principle of responsible Government; and the people of Canada will hold the Government, not responsible for the failure, but responsible for dealing with the Bank Act at its renewal, so as to cover the incidents that have arisen under the existing Bank Act. I do not believe in the idea of rushing the business of the Committee. I do not say I have any proposal to make, but there is a responsibility on someone, on Parliament we will say, or it is on the Government, to deal with the situation in connection with the revision of the Bank Act.

Hon. Mr. FIELDING: There is one part of Mr. Maclean's observations that I agree with: the responsibility is on the Minister of Finance to present a revision of the Bank Act which he thinks will meet all the conditions of the

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country. I accept that responsibility and I have brought a Bill here, not as a finality; I shall to-morrow, if I am permitted present a number of amendments which I hope will meet some of the difficulties which have arisen. I stated, when I presented the Bill to the House, that I was going to send it to this Committee, with the desire of availing myself of all the information obtainable, and I shall bring here to-morrow a series of amendments which I hope will meet, in part at least, the criticisms that have been offered. After that, we will be prepared to discuss it. I do not agree that any good end can be served by going into the history of the Merchants Bank, unless someone has something tangible to propose as an amendment to this Bill.

Mr. COOTE: But Mr. Chairman, unless we have an opportunity of finding out how the Merchants Bank got into this position, it is very hard to bring forward an amendment which will cover the points which are weak in the Bank Act. If you have an investigation by this Committee, I do not know how far that investigation needs to go, but without it, I do not see how you are to cover up the loopholes in the Bank Act now, if you say we should not investigate the Merchants Bank, and see why it was possible for that bank to get into that position.

Hon. Mr. FIELDING: We have been here now nearly a month investigating this matter, and if there is to be an investigation into the history of the Merchants Bank it might well have begun four weeks ago. I do not see how we are to take up the history of the Merchants Bank now and get through this session. I see no prospect of success if that is done, and I see no reason why we should not revise the Bank Act this session.

Mr. W. F. MACLEAN: Or next year?

Hon. Mr. STEVENS: May I make a suggestion, Mr. Chairman, that perhaps the Finance Minister will approve of. I followed the prosecution of the two officers of the Merchants Bank, with a good deal of interest, and I think any one who wants the most detailed information can get it from the record of the trial. But there was one point which impressed itself on my mind that might come within the scope of this Committee; I am not prepared to put it in perhaps as clear a way as I ought, but I will try to do it briefly. That was, how the General Manager and the President, who were prosecuted, could escape responsibility after having signed and returned definite reports to the Department. That seems to me to be about the only point that this Committee ought to be concerned in. The rest is a matter for the Courts. If we do anything at all I would suggest that any member of the Committee who desires to bring the question up should submit to the Committee a proposal affecting this particular point, or a similar point. That is, the only thing the Bank Act could do would be to strengthen the provisions regarding these returns. That is the only point in the whole business, as far as I can learn in regard to which we could effect any remedy. That could be brought in in the form of a notice of motion, which would then enable us to call the officers of the department who had to do with that particular phase of the case.

The CHAIRMAN: Mr. Stevens, I presume all the amendments in the Bank Act, or in the Bill, were suggested by reason of the failure of the Merchants Bank, and when we come to consider these amendments we will deal with that case.

Hon. Mr. STEVEN: Then let me conclude my suggestion. That phase of it, I think is the only phase that I think we are justified in dealing with. I do not think we are justified in having a retrial here of the whole case.

Some Hon. MEMBERS: Hear, hear.

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Mr. HANSON: That would be futile.

Hon. Mr. STEVENS: But it might be of advantage to have before the Committee the officer of the department who had to do with those returns.

Hon. Mr. FIELDING: An effort has been made to meet that condition, Mr. Chairman, in the Bill as it now stands. The clause referring to the return to be made by the management and the directors has been criticised somewhat, and I propose to offer another amendment tomorrow covering in part the case; but if in the course of the matter anyone wants any investigation from the point of view of the Finance Department, I have no objection in the world, although I do not see what bearing it can have upon it.

Hon. Mr. STEVENS: I do not want the Minister to misunderstand me; I am not asking or suggesting that, but I do suggest that Mr. Edwards or whoever the gentleman is who is in charge of those matters, could very materially help the Committee if these rather terse and brief amendments were more fully explained to the Committee.

The CHAIRMAN: That is right. We have decided to summon him.

Mr. IRVINE: Mr. Chairman, may I suggest that the evidence which came out in Court in connection with this case, would be perhaps on a different basis from what we are seeking. I presume these men were on trial for fraud or some other illegal act.

Mr. HANSON: Making a false return.

Mr. IRVINE: I think if we had those men here for say half a day to give us their opinion of what were the weaknesses in the Bank Act which led to the downfall of the Merchants Bank, it might be of great service.

Hon. Mr. FIELDING: Which men do you mean?

Mr. IRVINE: I mean the General Manager and the President, the officers who were tried. They ought to know. I do not know. Sir Edmund Walker does not know; who does, if they do not.

The CHAIRMAN: They would not be likely to admit anything.

Mr. IRVINE: If the General Manager could give us an idea of the weakness, it might help, and I would be in favour of having him for half a day.

Mr. W. F. MACLEAN: May I make this suggestion, Mr. Chairman, that probably one method of cure of what has happened in the Merchants Bank would be the adoption of the principle of Government inspection of banks.

Hon. Mr. FIELDING: There is a motion on that subject before the House.

Mr. W. F. MACLEAN: We will come to that then and there is no great hurry. Probably the best thing for Parliament to do—and I make this suggestion to the Minister now—is to renew the Bank charters for one year, and take up the whole question next session, if there is a great reason for getting through in a hurry now. And when I am speaking of the Bank Act, may I point out that it is the only Statute on the Statute Book where there is a fixed period of years which it has to run. The Criminal Code can be amended any year and is amended any year; the Railway Act can be amended any year.

Hon. Mr. FIELDING: So can the Bank Act.

Mr. W. F. MACLEAN: No, the story told to Parliament is that it can be dealt with only once in ten years.

Several Hon. MEMBERS: No, no.

Mr. W. F. MACLEAN: That is the issue, and we are going to hurry it through and renew it for ten years.

The CHAIRMAN: There have been two amendments since 1913.

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Mr. W. F. MACLEAN: I know there have been, but that is not the point. The fact is that it has been extended for ten years every time it has been revised, and the understanding is that it has a sanctity that no other Act has. You can amend the Criminal Code, or the Railway Act, or introduce any other legislation, but the Bank Act is sacrosanct for ten years.

Mr. HANSON: Mr. Chairman, what is the question before the Committee?

Mr. W. F. MACLEAN: I am dealing with how to proceed. I say probably the best way to proceed is to renew the Act for another year, and let it stand for revision, for another session.

Hon. Mr. STEVENS: The Act was amended in 1912, 1913, 1914, 1915 and 1916.

Hon. Mr. FIELDING: I would not like the Committee to form the impression that there is any good reason why the Act should be delayed. I said from the beginning that I would like the Committee to give its judgment upon this Bill. We have had a very full inquiry and we will have a further inquiry on the subject of the proposed amendments, and I think we should get through with this business and dispose of the Act this Session with the full knowledge that if anything happens we can change it again and again. There is no finality in legislation anywhere in the world, and Mr. Maclean knows that.

Mr. CALDWELL: Mr. Chairman, may I say a word? I do not trouble the Committee very much.

The CHAIRMAN: No, because you are not here very often.

Mr. CALDWELL: That is just the point. I am a member of another Committee also which holds frequent sessions. I would like to support the suggestion of the member for Toronto that this Bill be deferred for one year, and I will give you my reasons. Very few of the members of this House have been able to hear the evidence adduced before this Committee because they have not had time to attend, due to the fact that the other Committees are sitting. That is the reason I have not been present. I do not pretend to know much about the Bank Act, and also the Chairman of the Committee with whom I have been sitting for two or three sessions a day, has not had the advantage of hearing the evidence or reading it. It is not for this Committee alone to decide, but for the members of the House to help to revise the Bank Act. I say again that a very small percentage of the members have heard the evidence or had time to read it, and I think the suggestion is very timely that it might be well to defer it until next year and renew the charters for one year meantime.

Hon. Mr. FIELDING: If I were to suggest because I have not been able to attend the Agricultural Committee they should not do any business, therefore that would be in order.

The CHAIRMAN: Members of the House have been extremely busy during the last four weeks, but I suppose there is no guarantee that the same thing would not occur next session. The House of Commons passed this Bill, the second reading, and referred it to this Committee for consideration. I am not attempting to rush the Bill. It has not been rushed. We have been here four weeks considering the Bill, and I say we have reached the stage when we may well dispose of it, because there is very little more to be heard upon it. I say on Monday or Tuesday next or by Friday of this week we should have disposed of our hearings on the Bank Bill alone—I am not referring to Mr. Irvine's resolution—and on Monday or Tuesday we should seriously sit down to a consideration of the clauses not already disposed of, and the numerous amendments. We must sit down and consider these things seriously some day, and it is just as well to do it next week as a month from now. I do not think anybody can help us very much now. The responsibility is upon the Committee.

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Mr. GOOD: Let us go along and make the best haste we can, and see about it later on.

The CHAIRMAN: I am making the suggestion merely to guide the Committee, and lead the Committee, because a chairman cannot do much unless he does lead.

Mr. WOODSWORTH: Did we decide on that matter that was brought up? I believe Mr. Baker's name was mentioned, and there was an understanding that he should be before the Committee. That has to deal directly with the revision of the Bank Act.

Mr. HANSON: I challenge that statement; I know of no such statement as a member of this Committee, that Mr. Baker is to be called. I know now who Mr. Baker is; I do not think Mr. Baker would help this Committee very much.

Mr. SPENCER: I would be glad if Mr. Hanson would enlarge on the statement he has just made.

The CHAIRMAN: We need not waste very much time on this question. I happened to be present at the meeting of this sub-Committee when Mr. Baker's name came up, and it was the judgment of the Committee that Mr. Baker could not assist us in this matter. That was the judgment of the majority of the Committee, and the matter was not again reconsidered. Now, if any member of this Committee thinks that Mr. Baker should be called let him stand up here and now make the motion, and we will settle it once for all.

Hon. Mr. FIELDING: Why not refer it to the sub-Committee and let them report?

Mr. SPEAKMAN: That was not my understanding of the judgment of the Committee; they finally decided he should be brought.

The CHAIRMAN: His name was not in our report.

Mr. SPEAKMAN: I understood the report only covered certain of the witnesses that were to be called.

Mr. MITCHELL: I was Chairman and present at that meeting to which you refer, and your understanding I know was mine. Mr. Baker's name was considered; his was one of the names that we decided practically unanimously we would not call. There were other names left over, but as Mr. Speakman says, there was a general understanding that we would defer deciding on the other names that might be submitted later on. But Mr. Baker's name was considered at the time, and it was decided that it was not necessary that he should be called.

Mr. IRVINE: I agree with Mr. Speakman's impression of the decision of the Committee, but seeing we had no minutes I do not see that we can do much by discussing it now. I would move that Mr. Baker be called.

Mr. SPENCER: I second that.

Mr. MITCHELL: I have here in my hand the report that was made, and it gave the list of the witnesses that were to be called, and Mr. Baker's name does not appear there. But it was added, as I said a minute ago, "Your sub-Committee further reports that as other names are suggested to it and considered they will report further to your Committee."

The CHAIRMAN: Will you call your sub-Committee for this afternoon, say 3.30.

Mr. MITCHELL: Yes.

Mr. IRVINE: I understood that the sub-Committee would report to this Committee as the witnesses were exhausted, so to speak, and I understood we would be calling these witnesses later.

Mr. SPEAKMAN: That was my understanding, too.

The CHAIRMAN: That sub-Committee is still in existence, and it may meet again. There should be a reason for calling any witness. We do not wish to have people here unless they have some message and can assist us.

Our first witness this morning is Mr. Maclean, of New Brunswick. His name is a sufficient introduction.

Mr. BAXTER: Before you proceed to examine the witness, there is a suggestion I would like to make. I listened to at least part of Professor Fisher's testimony, and it was quite apparent from that, that the Professor was unwilling to express an opinion upon a certain phase of the situation because of his want of familiarity with Canadian banking institutions. It seems to me—I do not profess to speak from having any feeling in favour of the proposition, in fact, if anything, my mind is a bit against it—but I would like to get information, and I fail to see as yet that we have had from any witness a definite statement as to what relation a Federal Reserve Bank could have if attached to our branch bank institutions. I think I can understand it in the United States. It leads me to doubt whether such an institution could be intermingled with our present system, but I would like very much to have some one of real expert knowledge who could come here and give us some conclusions on that subject; in fact I feel we are rather drenched with theory, and it is about time we got down to something practical.

The CHAIRMAN: We have had Sir Frederick Williams-Taylor, Sir Edmund Walker—

Mr. BAXTER: But they do not say it can be worked. If there is any man who says it can be worked I want him to come and say so.

The CHAIRMAN: The bankers have expressed their views upon the subject. Perhaps you have not followed them, but I think I could direct your attention to the proceedings—

Mr. BAXTER: I know that is their view, but the thing is being put forth.

The CHAIRMAN: I do not know any man; we might call Mr. Ladner.

Mr. LADNER: Mr. Chairman, he is right here. If Mr. Baxter had been sitting around here in the dull hours as well as in the bright ones he would have seen many practical aspects of the case brought out, and perhaps if he would see the notes he would still find information, a great deal of information.

Mr. W. F. MACLEAN: In the other Committee of the House, in the Agricultural Committee, one Thomas King, a gentleman I happen to know, was there and gave a detailed statement of the practical working of the Reserve Bank system of the United States, and his evidence is well worth reading.

Mr. BAXTER: Yes, in a place where they have not a branch bank system.

Mr. W. F. MACLEAN: What is the branch bank system in connection with a banking system?

The CHAIRMAN: What are you getting at?

Mr. W. F. MACLEAN: I want to point out if the Member for St. John wants evidence about the American Reserve Bank system it has already been given in the Committee on Agriculture.

The CHAIRMAN: I think all the members of this Committee know something about the operation of the United States Reserve Bank.

Mr. W. F. MACLEAN: My friend to the right wants information.

The CHAIRMAN: No, he says he knows it. There is no mystery about the United States Reserve Bank. I would assume every member of this Committee understands it, not the exact technique of it, but there is nothing startling about it. Now, Mr. Maclean is available to the Committee. I have been asked to call Mr. Clark, of the Bank of Montreal, and Mr. Neill, of the Royal

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Bank, after Mr. Maclean is through, upon the representations made yesterday regarding the chartered banks doing an insurance business. I shall bring that up after Mr. Maclean is through.

A. N. MACLEAN, called.

The CHAIRMAN: Have you any statement to make?

Hon. Mr. STEVENS: Will the witness say who he is?

The CHAIRMAN: Mr. Maclean is a merchant of St. John, New Brunswick.

WITNESS: I am not here with any grievance. On the whole I think our present Bank Act is a good one. However, I am quite in accord with several of the amendments that have been introduced by the Honourable the Minister of Finance. We have passed through very abnormal times, the most abnormal in modern history, and as a business man I feel that our Canadian financial structure acquitted itself very creditably. I have had some experience in banking, manufacturing, merchandising, and any knowledge I have gained through these experiences will be gladly placed at the disposal of this Committee, and I will endeavour to answer any questions that may be put before me, to the best of my ability.

By Mr. Caldwell:

Q. It has been asked what Mr. Maclean's experience has been; you said you had some experience in banking?—A. Yes.

Q. Would you tell us just what your experience was? In what capacity did you enter the bank?—A. I was banking thirteen years; I entered as junior and retired as Inspector.

Q. Occupied all the positions between junior clerk and Inspector of Banks?—A. Yes.

Mr. HANSON: What bank?—A. The Bank of New Brunswick.

By Mr. Caldwell:

Q. Later, the Bank of Nova Scotia?—A. Yes.

Q. So that you have had a pretty wide experience through all the different departments of the bank?—A. Yes.

Q. What is your opinion as to the present banking system, under the present Bank Act, being able to accommodate all the different needs of credit in the country?—Do you think there is any barren area of credit?—A. I think under the Bank Act we have an excellent banking system. In regard to the farmer I can see the need for cheaper money for long term loans, which is beyond the scope of the bank.

Q. What is the reason that the present banking system is not able to take care of the farm loans, the long term loans?—A. I have another statement here, if the Committee would care for me to read it.

Q. I think it would shorten the proceedings?—A. Looking at the general situation through Canada to-day as regards Trade and the prosperity of our people, it is a serious fact that the farmer is probably worse off than any other class of producers. The condition of our farming communities to-day is simply an effect. Now, let us investigate some of the causes that have brought this about. Some say it is an effect of the late war. To some extent, yes, but not altogether by any means. The war simply hastened matters. Let us start shortly after Confederation. Farming was a great industry with us then, much greater in proportion to other industries than it is at the present time. At that time capital was not interfered with by legislation, and flowed freely

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where it naturally would go. In this state of society, Agriculture was bound to get its rightful share of the capital of the country. It is a well-known fact that capital naturally will go where there is the largest return with safety.

Now let us look into the effect of certain legislation that was put in effect from time to time a few years after Confederation. Through our many Tariff Bonus and Subsidy Laws, we diverted the country's capital from its natural flow, causing it to flow much more freely into industries, other than agriculture, to the disadvantage of the latter. I have no special quarrel with the tariff or other laws. We are told by their exponents that these laws built up the home market. Quite true, but have we not swung the pendulum too far, without realizing it? The condition of the farmer to-day is surely the answer. The effect of the Legislation has been slow in being felt, for during the period between 1880 and 1910 enormous amounts of outside capital came into this country for construction work, real estate, and for the establishment of new industries protected by legislation. However, since the late war, capital is not coming nearly so freely, and we are thrown more or less on our own resources, and we must get right down to hard facts, and face the situation as it really is. If we can get on a basis where the people in our rural districts will be prosperous, the cities and towns need not worry, for their prosperity will be assured.

Now look for the first steps toward a remedy. The prices of the commodities the farmers buy, to a great extent, are enhanced by the legislation I have spoken of. The value of the goods he has to sell is governed by the world price, and not bolstered up by these artificial means. Even the capital which would have naturally flowed toward the farmer has been interfered with. With the conditions that exist at present, the time is ripe for an endeavour to be made to give the farmer cheap money for a period of years against his land and thus partially offset some of the other handicaps. Cheap money will bring down his production costs, as cheap power does in the case of a manufacturer.

Under the present act, I do not think any blame can be attached to the banks, for the condition of affairs that exists. I believe if a little helpful legislation was enacted for the farmer for a change, the banks would be only too willing to do their share in co-operating. A farmer cannot very well go to a bank to-day for a loan covering a period of years. The funds of our commercial banks must be kept in a liquid condition. I think that can be taken for granted, and I would not advocate any change in the present Act in this regard. However, the Federal Government, could by issuing bonds, establish a federal fund to be known as the Farm Loan Fund or some such name, to be under the control of a Farm Loan Board. Application for term loans from this fund could be received by the banks. The Federal Board could have an inspector in each province, if necessary, to investigate and pass on loans. The bank manager, without liability could make any remarks that would be helpful in regard to information about the standing of the application when the application was forwarded. The Federal Board would have the final say regarding the loan. I am suggesting that the banks be used as agencies, simply because they are in the field, scattered all over the country. I believe they would co-operate and do this service for a very small commission, that would be much cheaper than any other way. Thus loans and payments could be handled in this manner at a minimum cost, and to give this money to the farmer cheap, we would want the lowest cost in connection with same. The Government would simply loan their credit for a limited amount to get it started without a profit of any kind. The banks would act as a distributing agency and the liability would be carried by the Farm Loan Board. Banking of any kind is a profession, and of course the Farm Loan Board would have to be presided

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over by a thoroughly competent banker. I think the suggestion made above is a step in the right direction, and it could be taken without any disturbance to our present financial structure.

There is just one other point I would like to touch on. It may be argued that the present condition of our farmers is caused by the rapid deflation in the prices of products. Of course deflation made the situation acute, but the reasons I have outlined go further back, and I think are really more fundamental. Deflation was not caused by the banks, as is sometimes inferred, although the effect of deflation caused the contraction of loans, and withdrawal of a certain amount of paper circulation. Take the world's trade for instance. It is made up of commodities in circulation. I will name some of the chief ones: Wheat, corn, live stock, coal, oil, wood, steel, lumber, cotton and rubber. For instance, if one of these commodities fell in price in the world's market, and if a bank is loaning money with such a commodity as security, there is nothing left for the bank to do but to reduce such loan, if necessary, to such a point that there will be a margin of safety, otherwise it would be bad business; a bank would find itself overloaded with frozen credits.

I have suggested that the Federal Loan Board issue bonds (of course endorsed by the Government) in preference to Dominion notes, as the latter is a dangerous practice to persist in, and absolutely wrong. Every one, the farmer included, is entitled to a fair normal return on anything sold in good currency without abnormal inflation.

Mr. W. F. MACLEAN: Do you think the National notes in the United States are a mistake?—A. No, I do not say that; it has been suggested here, on reading the evidence that Dominion notes be used. The issue of Dominion notes without real value behind them in the way of expended labor be it gold or otherwise, simply would discount the paper money that is already in circulation, and we would be as a whole, no better off. Money is not real wealth. It is representative of labor or service, and should always command a full normal share of labor, or the products thereof in exchange between the two.

By Mr. Caldwell:

Q. You are recommending a long term Farm Loan Act financed outside of the regular bank channel?—A. Yes, I think that is a somewhat similar—

Q. I think you state, due to the fact that the bank must keep its assets more or less liquid because they must pay their deposits on demand, it is not possible for them under the present system to make long term loans?—A. No, it is not within the province of the bank to make loans on land or to make loans that extend for a term of years.

Q. Is there any other factor that would make it advisable to issue bonds to finance a long term loan—could they draw their money from any different source?—A. I certainly would condemn the way I understand some of the provinces have gone about it, that is in having taken deposits and then loaned the money out. It is the investment channel you have to look to; it is not to the current capital of the country that is mobilized by the banks. The man that has the stock in hand, in other words to loan in investment, not to deposit one day and draw it out in a short time.

Q. Will you agree with this view, that a long term loan financed in the way you suggest would even be a benefit to the banks? That is, at the present time, it has been stated I think before various Committees in this House that the farmers are not even able to meet their obligations; they are not able to pay their grocers, the machinery men and the fertilizer bills, and these men not being able to meet their bills, the banks are not able to make collections

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as they formerly did. If this long term plan were put into effect don't you think it would even be to the benefit of the banks and to the business men all along?—A. I think it would be to the benefit of everyone to get the farmer cheap money just the same as it would to get cheap power for the manufacturer; it is going to react on the country. If you can get people in rural districts prosperous, the rest of us who live in cities and towns would have no worry on that score.

Q. You have been reading the evidence that has been given before the Committee quite fully, have you?—A. Yes.

Q. What is your opinion of the present section 88—being a business man as well as a banker you will have quite a good idea of how this operates?—A. Yes; I have had considerable to do with 88.

Q. I ask you from your experience—will you tell the Committee first what your present business is and how long you have been engaged in that?—A. Retail drygoods and clothing business, and so forth for seven years.

Q. You have had a pretty good chance to view the Bank Act from both ends?—A. Yes.

Q. What would you think of the operation of section 88?—A. I think section 88 is a good section. I was manufacturing for a year or two and we could not possibly have got on without it. There is a certain moral risk attached to it, and I think 99 out of 100 borrowers under it are honest, and I do not think the banks, I am sure they do not lend to any one unless they are positively sure of the moral risk. In the other evidence I read I noticed some objection was taken by our English friends; but I think the Honourable the Finance Minister has gone as far as possible, in registering the notice that a man is going to borrow. I do not think he is justified in publishing it or going to a lot of red tape of registering every notice; I think one registration is quite sufficient; and goods that are being shipped from England they can easily inquire if they are dealing with a man who uses section 88; I am quite in accord with the amendment introduced by the Honourable Minister.

Q. Do you think it is possible to abuse the provision under 88 without registration?—A. Yes, if the moral character is not there.

Q. You think the registration will overcome that?—A. I think it will have a tendency to overcome it.

Q. There was some mention made this morning of the Merchants' Bank case, and incidentally the independent audit was referred to; do you think the independent audit has had the effect it was expected to have when it was passed?—A. I remember the time quite well when Mr. R. C. McLeod advocated an independent audit; in fact the bank I was in had adopted it before it came into the Act, and it had fallen down, and it had not been the great success that Mr. McLeod thought it was going to be, but it is not the fault of the Act. It is the fault in the case of the Merchants' Bank of the internal management; some one was guilty. The courts have decided that certain people are not guilty, but some one in the internal management of the Merchants' Bank ruined it; there is no question about it.

Q. The internal management was faulty?—A. Yes. But to go on further with this amendment that the Honourable Minister has introduced into the Act, widening the scope of inquiry, that is, as I understand it now, the auditor's report of the Finance Department, and the Honourable Minister has authority, if there is anything that does not look right, to widen the scope of their inquiry, that is send it back for further details, further report. I think that is an excellent section in the Act.

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Q. Would you suggest that this independent audit power should be extended so that the auditors would be requested to investigate and find if the securities were good for the moneys loaned by the bank?—A. As I understand the amendment that is in the Act at the present time, the proposed amendments put forward—

Q. Is that a fact, Mr. Fielding?

Hon. Mr. FIELDING: If the Minister of Finance thinks they are not doing their work efficiently, they can ask for a proper inquiry, as the witness said; still the audit is made by the shareholders, not by the government.

WITNESS: I do not think, in speaking of the Act, that the shareholders have taken the interest in the independent audit they should have. It is hard for them where they are scattered all over the country, but I think this amendment in the Act is going to be very beneficial.

By Mr. Caldwell:

Q. With regard to the appointment of these independent auditors, do you think the present method is the proper one, or should they be appointed by the Finance Department?—A. Well, as I understand it, they will make certain reports to the Finance Department, and the amendment that the Honourable Minister is to approve of the auditors and use more supervision over them, I think it is wise, although I am not at all in favour of a regular government audit, but I think indirectly the supervision they will give the auditors will certainly be beneficial, that is the supervision from the Finance Department.

Q. I think you said under the present banking system it was next to impossible for the banks to extend long term loans. I would like to ask your opinion on this feature of it; if any given industry is unable for a sufficient length of time to finance their operations do you think it has any effect on the price of the commodity produced by that industry?—A. Take a single industry, I hardly think it would have very much effect on the country's price or on the world's price.

Q. We will take the case of the wheat crop, which is the big export crop of Canada; I think we had evidence before the Agricultural Committee last year when the matter of the Wheat Board was up,—I want to illustrate the point—that the price for September, October and November invariably was very low as compared with the price for the rest of the year; that three-quarters of the wheat marketed by the farmer did not go to the ultimate market, but three-quarters of the crop was marketed during that three months at the low price, and that the price was higher during the period when there was far less being marketed; that the grain dealers availed themselves of the storage capacity and took advantage of the low price—the consumer did not get the low price, but the dealer stored it, and sold it as the market needed it at a much better price than he paid to the farmers. If the farmers were able to carry that over, and were able to get a little more credit to market this over a more extended period, do you not think that the farmer would get a better price? In other words do you not think that the inability to secure credit does affect the price to the producer?—A. Yes, it costs them money, although we must remember that it is not the province of a bank, or good banking, to finance anybody, farmer or speculator or the man that owns the warehouse, to speculate. It would certainly be a good thing if a farmer was forehanded enough to get some capital together, if he could borrow money on his land, and save enough working capital so that he could carry his wheat along and sell it when he thought best.

[Mr. A. N. Maclean.]

By Mr. Hanson:

Q. It is not the function of the bank to do that for him.—A. No, a bank should not assist anyone to speculate.

Q. At all events the bank can loan against grain in storage?—A. Yes.

Mr. CALDWELL: After the dealer has purchased it.

Hon. Mr. STEVENS: No, a banker can loan to the farmer against grain in storage.

The WITNESS: Yes, the banks can loan to the farmer, he is a producer.

By Mr. Caldwell:

Q. One other question in regard to the independent audit, or proposed supervision of the banks by the Government. Do you think this new amendment will possibly make it less probable for bank failures to occur, like the Merchants' Bank, due to the fact that the Finance Minister can obtain the knowledge between the regular audits, if he sees fit, if he suspects the bank's business is going wrong. Will the new amendment enable him to get the information before the final crash comes?—A. I think it will have that tendency.

Q. You think it will have that tendency?—A. Yes.

By Hon. Mr. Fielding:

Q. When you speak of the additional accommodation that you think the farmer needs, through the creation of a farm loan bank, on what class of securities do you think the aid should be granted?—A. Well, on his lands.

Q. You are speaking of land securities?—A. Yes.

Q. In other words, something that the mortgage companies now do would be done cheaper?—A. Do it cheaper and for a shorter term if necessary. The mortgage companies are not anxious for anything under ten years or so.

Q. You would have in view landed securities?—A. Yes.

By Mr. Caldwell:

Q. That would be for a long term only, but the new credit, do you say that should be a mortgage, a land security?—A. If a man wants a loan for two or three years and has good security, there would be no reason why he possibly might not get it.

Q. In this connection I think it has been pretty well demonstrated by the long term companies that are in existence in the Provinces of Canada, and in the United States by the Federal Government there, that the farmers have been able to obtain money much cheaper than they can through the ordinary banking institutions. Are you acquainted with that feature of it?—A. From what I have read in the financial papers of the United States system, they seem to.

Q. At all events that is for a three or four year loan?—A. Yes.

By Mr. W. F. Maclean:

Q. I would like to ask the witness whether this scheme he has presented here to-day is not a portion of the relief that has been afforded in the United States through the Land Bank and the Farmers' Loan proposition backed by the National credit and the National Reserve Bank system?

The CHAIRMAN: What is the question, Mr. Maclean? Put your question shortly.

By Mr. W. F. Maclean:

Q. Is not your proposition a small portion of what is now the law in the United States?—A. No, when I wrote out that statement I had no information about what was being done in the United States. I took the conditions of the country as I found them here.

[Mr. A. N. Maclean.]

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Q. Where did you get the terms, land bank corporation or land Board?—A. I don't think I used the words "land bank corporation." I used the word "Federal."

The CHAIRMAN: That is two or three hundred years old, Mr. Maclean.

Mr. W. F. MACLEAN: No? Then I want to call the witness' attention to that.

Hon. Mr. STEVENS: He must have read some of your speeches, Mr. Maclean?

Mr. W. F. MACLEAN: Perhaps if some people would, they would be better posted. The point is this, that the witness is making a statement in favour of a certain proposal of his, but is he not aware that it is only a portion of the practice now obtaining in the United States, and that more relief has come to the farmers of the States by reason of that legislation and the National Reserve bank system that prevails there being behind it all.

By Mr. Caldwell:

Q. May I ask this question, Mr. Chairman, that instead of setting up Federal land banks in Canada, you thought the real financial transaction should be carried on through the banks for a very much less cost than by setting up a new system of banks; there should be a Federal Land Loan Board who would decide on the loan and the security and the bank would have no veto power in making these loans, as I understand your statement?—A. No.

Q. But the banks would handle the actual finance for the Loan Board?—A. Yes.

Q. In a much cheaper manner than the Government could, by setting up farm loan banks?—A. Yes, my idea was to get it at the lowest possible cost.

By Mr. Chaplin:

Q. Coming back to the question of audit, what is your opinion of the proposition to limit the term of an auditor for three years?—A. If it is a good auditing firm, I see no reason why they should be limited to a three-year appointment. I think the auditing firm would get more familiar with the business of a bank, and time should have nothing to do with it as long as they do their duty satisfactorily to the shareholders and the Finance Department.

Q. Then the limiting feature would be a disadvantage to the bank?—A. That would be my opinion.

By Hon. Mr. Fielding:

Q. You say it would be a disadvantage to the bank?—A. Yes.

By Mr. Kellner:

Q. As to selling bonds, what rate of interest would be paid?—A. Whatever the market rate is, you would have to pay. My idea was to get it started and after it was found workable and seasoned, and through experience was a success, the Board might sell their own bonds. And the country could get out from behind the credit.

Q. Do you think the credit of the country would be in a worse position if they were to issue money instead of issuing these bonds you suggest?—A. Well I don't know how you are going to get good money without interest. I don't see that you would be any better off.

Q. The interest would be as stable as the money. You were speaking of the success of the banking system. In order for it to be a success it is necessary for a lot of people to be in debt and owe money to the bank in order to make the bank a success. That is what its success is founded upon.

The CHAIRMAN: Ask the witness the question, and we will argue your point afterwards.

[Mr. A. N. Maclean.]

By Mr. Kellner:

Q. I am asking the witness that question, Mr. Chairman.—A. No, I don't know that it is necessary to get a lot of people in debt. They have to carry on the current trade of the country, to mobilize enough capital through their deposits and get a return by loaning it out, financing current trade on commodities and assisting distribution.

Q. If the banks were to increase the volume of their business and become much larger and more prosperous than at the present time, what would your picture of conditions be then; would there be a larger percentage of the population in debt to them or would the debt be less?—A. If trade was flourishing, temporarily they might possibly be. It would depend on the condition of trade.

By the Chairman:

Q. I suppose the banks are the greatest debtors in the country?—A. Yes.

Q. No one owes as much as they do?—A. Yes, the banks are constant borrowers.

By Mr. Kellner:

Q. Is it not the policy of the bank at a time when the country is going through a period of what we term good times, when the people are supposed to be making money and prospering, isn't it the policy of the banks to contract loans then?—A. To restrict loans?

Q. Yes.—A. No. When the world's prices start to go down and you have a buyers' strike, as it is called, the banks like everyone else, have to curtail and get in their loans. It would not be good business for them to leave their loans out without a fair margin of safety.

Mr. SPENCER: What causes a buyer's strike?

The CHAIRMAN: Mr. Spencer, your question is absolutely lost; I did not hear it myself.

By Mr. Kellner:

Q. It is good business for them to follow that policy?—A. Yes, they take their losses just as well as I would as a merchant. They do not follow that policy for any special gain except to save their assets.

Q. Do you consider it is easier for them to make good returns during a time of depression than during a time of what we might term good business conditions?—A. Returns on their invested capital? I think they would make more money in good business conditions. It would not be in their favour to change business conditions when they are prosperous, or in their interest at least.

Q. Looking at it from a banker's standpoint, suppose a banker makes a loan to two different parties, and the bank has accepted the security that is offered, and later conditions begin to tighten up a little and one of those loans will carry, but the other absolutely refuses to carry any longer, and forces the man into liquidation. Do you think the bank has any responsibility in that case? It is a party to the loan.—A. There are a good many features which might enter. Personally, I am a great believer in the character risk. If the character risk is good and the man is trying to help himself, I think in 99 cases out of 100 the bank will try to help him.

Q. I don't think it would hardly work out to that large percentage in actual operation. In fact I can assure you it does not. And about the risk being good, I don't think the bank would take any risk that they did not consider good, so the onus is practically on the bank anyway.—A. You said when the loan came due; meantime there might be some change in the circum-

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stances between the time when the loan was made, and the bank might think it a good loan when they made it but later on they might possibly change their opinion.

Q. You would not consider it would be safe banking to put any of the onus on the banks?—A. Well, yes, in isolated cases. The banks are not infallible by any means. The banks make their mistakes at times.

By Mr. Hanson:

Q. The point you make is that the bank is the final arbiter.—A. Yes.

Q. It has to be?—A. I think so.

By Hon. Mr. Fielding:

Q. On the question of the limitation of the appointment of an auditor, I understood you to say that the time limit would not be to the advantage of the bank, limiting his term of service to three years?—A. Yes.

Q. Is it conceivable that it might be to the advantage of the public? The public being suspicious of collusion possibly between the bank management and the auditor, might it not be advantageous to break the thread in order to remove that and to satisfy the public.—A. Yes, I can see the force of that argument.

Q. The Bank Act has to be revised with some regard to public opinion. If it is going to reassure public opinion might that not be an advantageous clause?—A. Public opinion just now, on account of the audit practically breaking down in connection with the Merchants' Bank, is affected. Just now the Act coming up for revision, it possibly would satisfy public opinion better to shorten the term.

Q. The British Government will not allow a regiment to stay too long in one place; the Methodist church will not allow a minister to stay too long in one place. They break the thread of connection. Might there not be some advantage in that?—A. From a public standpoint I think there is.

The CHAIRMAN: It is but yesterday Mr. Fielding, that some of the members of this Committee protested against the banks changing their country agents so frequently.

Mr. CALDWELL: May I ask the Finance Minister a question on this point? Is it not a fact that without this three year limitation the Finance Minister has the right to refuse the appointment of any auditor if there is a suspicion that he is in collusion with the bank?

Hon. Mr. FIELDING: Not exactly that. The panel is submitted to the Finance Minister and he can strike a name off, but unless there is a specific reason or necessity, he would not discredit an auditor in that way. In view of the suspicion in the public mind about collusion, the object of that clause—whether it is wise or not—is to show that if there is a possible collusion it cannot continue very long. A new broom sweeps clean. And fresh blood is a good thing to bring in.

Mr. CALDWELL: If there is a possibility of collusion you have that power without this provision.

Hon. Mr. FIELDING: You can strike him off the panel every year, yes.

By Mr. Irvine:

Q. I understood the witness to lay a good deal of stress on character in banking. In your opinion would a bootlegger with \$100,000 worth of securities get a loan quicker from any bank than St. Francis of Assisi?—A. I did not catch your question.

[Mr. A. N. Maclean.]

Mr. IRVINE: Supposing we take a modern instance then.

The CHAIRMAN: Why not raise that issue later on and we will all take a hand in the arguing of it.

Hon. Mr. FIELDING: And St. Francis has not been an applicant for a loan. At least not recently.

By Mr. Irvine:

Q. I have another question more serious. Supposing the Government adopted your plan of rural credits, and issued loans to farmers with their land as security, how would you propose to get out of the difficulty that a very large percentage of our farmers have mortgages on their lands perhaps to their full value from a mortgage point of view.—A. If a man is mortgaged up now, he certainly has not the credit to go on with. Of course new settlers coming in would have the advantage of it. If a mortgage was coming due, it might be paid off.

By Mr. Good:

Q. No doubt the witness has read of the time when debtors were imprisoned. Is not that pretty much the same as not extending any credit to a man who is down and out, keeping him permanently down and out?—A. Well, he will have to work along until he gets in a position where he will have some working capital or something to borrow on.

By Mr. Caldwell:

Q. That is, no matter who is doing the loaning, he must have security?—A. Yes, if you introduce charity into it, it is no longer business. A loan must be a business proposition.

Mr. IRVINE: I think St. Francis would not come out well in business, even as a character risk, without security.

The CHAIRMAN: Gentlemen, as I remarked at the opening of our session, I asked if Mr. Neill and Mr. Clark might be heard on the suggestions made yesterday by the representatives of the Canadian Federation of Insurance agents. Is it agreeable to you to hear them?

Some Hon. Members: Carried.

Mr. SHAW: Before we go on with that, Mr. Chairman, I asked the other day if we could get a copy of the judgment of the Court in connection with the criminal prosecution of the manager, I think it was, of the Merchants' Bank. I understand they are not available here; I do not know whether they are published or not.

Mr. HANSON: It was published in the Montreal Star.

Mr. SHAW: I do not read the Montreal Star. What I want to ascertain now is, are we going to be favoured by any witness with the facts in connection with the Merchants' Bank failure? Because it seems to me that if we want to amend an Act under which these failures took place, we must ascertain the weakness of the Act in the working out, and then we will be in a position to make recommendations.

The CHAIRMAN: Mr. Shaw, I am sorry, but we were discussing that this morning and we cannot go back to it just now. There will be one witness here; that is Mr. Edwards.

Mr. JACOBS: Mr. Chairman, if we are going into that, why not get all the facts that led to the insolvency of a dozen banks?

Mr. SHAW: I will agree to that. I would prefer it.

Mr. IRVINE: Have you a motion to that effect?

[Mr. A. N. Maclean.]

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Mr. JACOBS: No, I am not making any motion

The CHAIRMAN: Gentlemen; I have pleasure in presenting to you now Mr. Neil, Manager of the Royal Bank of Canada, who desires to make a statement respecting the suggestions made yesterday in regard to the insurance business carried on by banks and allied trust companies.

C. E. NEIL, called and examined.

WITNESS: Mr. Chairman and Gentlemen: In reply to Mr. Wickham's statement concerning the relations of the Royal Bank of Canada with the Montreal Trust Company, and Montreal agencies, especially as regards insurance, I desire to say that the Royal Bank of Canada does not control the Montreal Trust Company, nor does the Bank own directly or indirectly a single share in the Trust Company or in Montreal agencies. Many shareholders of the Montreal Trust Company are not shareholders in the Royal Bank, and many shareholders of the Royal Bank do not own shares in the Trust Company. Of the 21 directors of the Montreal Trust Company, nine are directors of the Royal Bank; two are directors of the Molsons Bank; and one each of the Canadian Bank of Commerce, the Bank of Nova Scotia, the Union Bank of Canada and the Montreal City and District Savings Bank. Further, men who are directors of the Royal Bank are on the Boards of the National Trust Company, the Eastern Trust Company, the Northern Trust Company, the Mercantile Trust Company and the Crown Trust Company.

The Royal Bank claims the right to place the insurance on its own properties through any broker or agency that the directors of the bank may select. The Royal Bank of Canada has never used its influence or brought pressure to bear to divert the insurance of its customers to the Montreal Trust Company or the Montreal agencies. This has always been the policy of the bank. It has no intention of departing from this policy and obviously it would be detrimental to the bank's interest to thus antagonize its clients for the sake of adding to the earnings of a company in which it owned no shares. Managers and officers of the bank are expressly forbidden to act as agents of insurance companies or to write insurance. The specific statement made here yesterday that I personally brought pressure to bear on the Howard Smith Paper Company to transfer insurance to the Montreal agencies is incorrect. When Mr. Howard Smith without being canvassed by me or without any suggestion whatever from me informed me that his company intended to transfer its insurance to Montreal agencies, I told him that I thought Montreal agencies would be very glad to get the business. Further, some weeks before Mr. Howard Smith's interview with me, a director of his company, closely interested in the management, informed the General Manager of the Montreal Trust Company that it was the intention of the Howard Smith Paper Company to transfer its insurance to Montreal agencies. In other words, what I mean is, that the intention to transfer the business to Montreal agencies came about long before, some weeks before I was spoken to. The statement that was offered that this business would be transferred back to the original brokers, if such action would put an end to the situation which had arisen, is also incorrect.

I am informed that the superintendent of Insurance in effect investigated the records of the Montreal agencies, to ascertain whether the Royal Bank made a practice of directing business of its customers to Montreal agencies, and in this connection I quote the following from a letter written on Novem-

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ber 17th, 1922, by the Superintendent of Insurance, Ottawa, to the Manager of Montreal agencies. This is quoting the principal part of the letter and this is what was said:

"I have read the declaration which accompanied your letter and may say that it appears to me that the argument against the transaction of insurance agency business, by financial institutions, is contained in the fourth paragraph, in which it is stated that such an institution expects to obtain business by financial leverage instead of by the professional service of an insurance agent. If this statement is true, I think it is a strong argument on the part of the agents. Our recent investigation was made for the purpose of determining whether, in the case of your company, it was true, and I must say that the result of that investigation did not confirm the assumption which is usually made, that pressure is used with clients to secure their fire insurance for the institution."

In other words, the situation was investigated by the Insurance Department of Ottawa, and they gave us a clean bill of health.

The statement that the bank contemplated an action at law in connection with a circular which was sent out containing statements, not in accordance with the facts, and considered detrimental to the bank's interests, is correct. The only reason why the action was not proceeded with was because the bank's solicitors advised that it would be difficult to prove damages. Now, Gentlemen, I will be very glad indeed to answer any questions that may be asked.

The CHAIRMAN: Just on this point, because Mr. Neil will return to the Committee on the general question.

By Mr. Good:

Q. Mr. Chairman, I think the statement was made that one bank—the Bank of Montreal, or the Royal Bank.—A. The Royal.

Q. That it owned no stock in some trust company, the Montreal Trust Company. What amount of stock in that company was held by the directors of the Royal Bank?—A. I cannot tell you exactly. I am not able to say.

Q. Over fifty per cent?—A. I should say certainly not. Not over fifty per cent. But I am speaking without actual knowledge. I am certain it is not over and I can find out for you if necessary.

By the Chairman:

Q. Your agents are instructed generally, Mr. Neil, not to engage in writing insurance?—A. Yes, we have gone so far as the dismissal of men from our service who broke our instructions in that respect.

By Mr. Marler:

Q. Does that apply to your branch managers all through?—A. Yes.

By Mr. Ryckman:

Q. Mr. Neil, I understood you to say that the shift in the placing of the insurance took place at the time that the loan was got from the Royal Bank?—A. No.

Q. I am speaking of the Howard Smith Paper Co. Do you say that there was no relation between the change in the placing of the insurance and the granting of the loan by the Royal Bank?—A. None whatever.

Q. No relationship at all?—A. None whatever.

Q. One did not synchronize with the other?—A. Not at all.

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Q. They were absolutely independent transactions?—A. Absolutely independent transactions. The account had been on our books for some years.

Q. Then you would also tell the Committee that there was no reason or ground for the placing of this insurance that had a connection with the granting of the loan?—A. None whatever.

By Mr. Marler:

Q. Does it necessarily follow that your policy with the Montreal agents is directed from the Royal Bank at all?—A. No.

The CHAIRMAN: That is all, Mr. Neil. Gentlemen, we shall now hear upon this particular point from Mr. D. R. Clarke of the Bank of Montreal.

D. R. CLARKE, called and examined.

WITNESS: In reference to what was said yesterday, the Bank of Montreal has never influenced, nor attempted to influence, any of its customers, or borrowers, or anyone else, to have them effect their insurance through the Royal Agencies Limited, the Royal Trust Company, or anybody else. Nor have they any intention of doing so. The Bank of Montreal owns no shares in the Royal Trust Company, nor in Royal Agencies, Limited. A number of shareholders in the Bank of Montreal are also shareholders in the Royal Trust Company, but each institution has many shareholders who own no shares in the other, but as a whole the interests of each are substantially different. The Royal Trust Company has 17 directors, of which nine are also directors of the Bank of Montreal. Officers of the Bank of Montreal are strictly prohibited from engaging in the insurance agency business.

With regard to the two cases mentioned yesterday, by Mr. Wickham as subjects of complaint as to the Bank of Montreal, both transactions were in respect to placing insurance on our own acquired properties, and the agents who previously placed the insurance received generous treatment. No amendment should be passed which would prevent banks from employing such agents as they may prefer, to effect insurance on their own properties. With reference to the Merchants' Bank of Canada in its relation to the Bankers' Trust Company and its past history, the Bank of Montreal has no knowledge and no responsibility. We acquired the Bankers' Trust Company with the Merchants' Bank of Canada and promptly sold all its shares to the Royal Trust Company, which now owns and controls it, and what I have previously said in regard to Royal Agencies, Limited and the Royal Trust Company applies now equally to the Bankers' Trust Company.

By Mr. Spencer:

Q. May I ask how many directors has the Bank of Montreal?—A. Thirteen or fourteen.

By Mr. Shaw:

Q. How many directors of the Bank of Montreal are directors in the Royal Trust Company, and then how many in the Royal Agencies?—A. There are nine directors in the Royal Trust Company; there are none in the Royal Agencies.

Q. Are any of the directors of the Royal Agencies directors in the Royal Trust Company?—A. No.

[Mr. C. E. Neil.]

By Mr. Black:

Q. As far as you are concerned on behalf of the Bank of Montreal, you come here to plead not guilty of the charges of the insurance companies?—A. Yes.

Q. Legislation prohibiting such practice would not be distasteful to your bank because you do not practise that?—A. What is the use of legislation if it does not cover anything, if it never has been done and is not going to be done.

Q. If such legislation was effected it would therefore not affect your bank?—A. No.

Q. You would object to it?—A. I think it is objectionable, yes.

By Mr. Ladner:

Q. Would it not be within the competency of a bank manager who had intimate knowledge of his clients' business if he were asked to suggest some reliable concern that they could go to in order to get service and security, whether it be insurance or some other business?—A. A banker is always advising his customer. It is a function of the bank; it is one of the things we are supposed to know so much about; sometimes we fall short though.

By Mr. Marler:

Q. Of the directors of the Royal Trust Company is there an Executive Committee?—A. Yes.

Q. Of how many?—A. I am not quite sure, because I do not know very much about the working of the Royal Trust Company, in fact I know very little of the working of the Royal Trust Company.

Q. Is there anybody here that could tell us any more about it?—A. There is an officer of the Royal Trust Company here at present in the room.

Q. You prefer to have him answer the question?—A. Naturally the man who knows something about it is the best one to answer the question.

Q. You cannot tell the Committee who the Executive Committee of the Royal Trust Company are?—A. No; I know some of them.

Q. Are they officers of the Bank of Montreal?—A. There are officers of the Bank of Montreal on that Executive Committee.

Q. Are the Executive Committee of the Royal Trust Co. directors or officers of the Bank of Montreal?—A. Why not ask this question of the Royal Trust Company?

Q. I am quite prepared to do so; you prefer not answering the question?—A. I am not sure; I do not follow the Royal Trust Company in any way, shape, manner or form; no more to do with them than the Montreal Trust Company.

Q. If it is convenient to call this member of the Royal Trust Company, do you prefer a motion being made to that effect?

The CHAIRMAN: I suppose when we have disposed of Mr. Clark that will be agreeable to the Committee.

By Mr. Marler:

Q. Are you aware, or is it the case, that any of your branch managers are also managers or assistant managers of the Royal Trust Company?—A. Not that I am aware of.

Q. None of your branch managers throughout the country are?—A. Some of our managers may act in an advisory capacity where the Royal Trust Company have an office.

Q. Is the office of the Royal Trust in many of the cities throughout Canada in the same building as the office of the Bank of Montreal?—A. I do not

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know. I think they are in one or two cases; they used to be in St. John, New Brunswick.

Mr. BAXTER: It is still the case.

By Mr. Marler:

Q. You are not positive of that fact?—A. No.

Q. You only know from general knowledge?—A. Yes.

Q. Could you inform the Committee if any of these branch managers who act possibly also in collaboration with the Royal Trust Company have any express instructions not to write fire insurance?—A. Yes, they are strictly prohibited by the rules and regulations of the Bank of Montreal.

Q. Although they may be joint managers of the Royal Trust Company or exercise a supervisory capacity over them?—A. The Royal Trust Company in so far as the Bank of Montreal managers would be concerned would be entirely different from the Royal Agencies which writes the insurance as I understand it.

Q. I was not discussing the Royal Agencies, I was discussing the Royal Trust Co.?—A. I can say categorically that the Bank of Montreal managers do not place or attempt to place or influence the placing of fire insurance anywhere, no matter in what capacity; that is strictly prohibited.

Q. Even if they act in the capacity of supervising the affairs of the Royal Trust Company they have special instructions not to influence fire insurance in any way?—A. Yes.

By Mr. Ladner:

Q. For the purpose of the record I think perhaps Mr. Clark should state his position in the Bank of Montreal?—A. I am an assistant general manager of the Bank of Montreal; I was superintendent of its business in the Maritime Provinces, in British Columbia and Ontario, started 35 years ago in Mr. Neill's bank.

The CHAIRMAN: That will do Mr. Clark. Do you want the representative of the Royal Trust Co.?

Mr. MARLER: The last witness could not answer the question I was asking, and I would make a motion that whoever the representative of the Royal Trust Co. is that is here, he be called in due course.

The CHAIRMAN: We might as well do it now if he is in the room. I understand it is Mr. Jellett. Will Mr. Jellett come forward?

R. P. JELLETT of the Royal Trust Company, Montreal, called and examined.

By Mr. Marler:

Q. The last witness informed us that of the Royal Trust Company directors certain were also directors of the Bank of Montreal; is that the case?—A. Yes.

Q. How many directors are there of the Royal Trust Company?—A. The Royal Trust Company has seventeen directors, of which nine are also directors of the Bank of Montreal.

Q. And of the directors of the Royal Trust Co. there is an executive committee?—A. There is an executive committee of three.

Q. And those three are they directors or officers of the Bank of Montreal?—A. Yes. At the present time the committee of three consists of Sir Vincent Meredith, Sir Frederick Williams-Taylor and Mr. C. W. Dean.

Q. Do the executive committee in the ordinary course of business more or less have frequent consultations with the executive officers of the Royal Trust

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Co.?—A. Yes, the executive committee of the Board of Directors of the Royal Trust Co., myself and another officer of the Trust Co. have two meetings a week, that is our usual practice.

Q. Are you in constant collaboration with them?—A. Collaboration I think is perhaps a rather strong word; we go to them for advice where necessary.

Q. Do you consult them every day?—A. No; I am the assistant general manager of the Royal Trust Co., and I have certain powers to do certain things; my own judgment informs me to a certain extent, but I must not do too much on my own initiative, and I have to go to the executive committee of the Board of Directors, because the Board of Directors is too large a body to be called into consultation in these frequent matters that come up.

Q. The executive committee more or less directs the policy of the Royal Trust Co.?—A. On behalf of the directors they do.

Q. The Royal Trust Co. has a subsidiary company called the Royal Agencies?—A. Yes.

Q. The stock in that company is owned by?—A. The Royal Trust Co.

Q. Entirely?—A. Every share of it, beyond the qualifying shares.

Q. Is it part of the business of the Royal Agencies to write fire insurance?—A. Yes, that is the chief part of its business; it has other functions under its letters patent, but its insurance business is the chief business of the Royal Agencies.

Q. From whence does it derive its business?—A. It derives its business from, well, I think the ordinary insurance from insurers throughout the country, from those whom it can persuade to give them business.

Q. Has the Royal Trust Company to be persuaded to give its business to the Royal Agencies?—A. The Royal Trust Co. naturally gives business to it, gives a share.

Q. Does it not give it all the business it can?—A. No, because if we gave all our business, and all the business we could influence to the Royal Agencies, Limited, it would be too hard on the other agencies. This is a matter in which we use a great deal of discretion. We deal with each case as it comes up, and where there are special considerations where the present agent should be continued or where he should be given some consideration through the Royal Agency or should deal direct through the Royal Trust, that is all considered; it is not a wholesale operation.

Q. Because you realize in the allegations that were made yesterday these agents accused the Royal Agencies among other companies of taking certain business away from them?—A. Yes, but every agent of insurance, unfortunately that is the very existence of the insurance agency business, every large insurance agent does take business from other agents in certain circumstances; it is a competitive business.

Q. Supposing an agent has a certain line of insurance and it subsequently comes in to the Royal Trust Co. through an executorship or through lending money, or something of that description, would you necessarily retain the same agent, or would you put it in the hands of the Royal Agencies?—A. We would not necessarily retain the same agent; we would generally employ our own agent, but we might adopt one of two courses; we might say to the agent who had the business before, "Now, this business has come to our place, but if you will place it in the insurance company which we represent we will pay the standard agent's commission," or we might say, "We are going to give this business," and we say we think it is a legitimate thing to do, we are there to make profits, and where it is a perfectly legitimate case, and we consider it fair to do—we might say, "We are going to have this placed through the Royal Agencies, Limited."

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Q. I am trying to get the facts?—A. Yes.

Q. Consequently you can tell the Committee that in general, or is it not in general, that if an agent comes along taking insurance do you attempt to retain that insurance or not?—A. I am afraid I cannot answer that generally. As I say it is my particular duty to consider each case, and I do not think any general rule would apply. It would depend on all sorts of circumstances. It would depend on the relationship of the agent to the owner of the property, or perhaps if it was the case of a testator who would appoint the Royal Trust Co., it would depend on the relationship of the man who appointed us, and we have to consider the wisdom of each move we make.

Q. What are the main considerations that you take into consideration in a matter of that description; let us say, for example, an estate; a man dies having employed an insurance agent during his lifetime, a man who has built up a certain insurance business of his own; you are appointed executor under the will, certain fire insurance matures, what would generally happen to the old agent that has been employed by the man during his lifetime, would you still maintain that insurance or in general practice would that be taken over by your own company?—A. I would like to give, and I hope my answers won't seem lacking in frankness, but I am there to decide these things; it cannot be done on general principles; we would endeavour to show some form of consideration to that agent; technically we could show it in a great many forms; we can show him consideration—we are speaking now of the Trust Co.

Q. Is that as positive an answer as you can give to the Committee?—A. Yes, as positive an answer.

Q. In other words then there is no general practice and no general policy so far as that is concerned, each is treated on its own merits?—A. Yes; no policy has been laid down by the Executive Committee as to how these things should be handled. I practically under due supervision am to handle the insurance business so far as I can in such a way that we will derive profit where it is legitimate profit, and we will show consideration where we think there is reason to do so.

Q. What do you define legitimate profit?—A. That is going back to the same question I was trying to answer before. We have a power which is very commonly exerted by people who have money to lend, and that sort of thing, to make certain stipulations, and if we make a stipulation that during the time we are lending money to a certain person he shall insure through an agent selected by us, that I conceive to be a proper exercise of the power of a person lending money—

Q. I quite understand that; I will come to that point in a moment.—A. I would like to say in that connection that that is not a practice invented by the Royal Trust Co. Mr. Marler will confirm me in that, that he is familiar with the practice of many of these mortgage loans where that particular clause is inserted.

Q. I know the clause very well indeed; I am also very well aware in many other cases the clause is not invoked; I am also very well aware in many cases the clause is rigidly invoked; I would like to revert again to the question of estates which come into your hands, I would like it made a little clearer to the Committee how you usually treat the insurance agent who has had business with the deceased person during his lifetime, whether or not that insurance agent is allowed to retain the business he has built up or not?—A. Mr. Chairman, I am speaking only for the Royal Trust Co. and the Royal Agencies Limited, and the Royal Trust Co. derives its power from the Province of Quebec, and from the other provinces in which we operate; the question is I think in connection with the proposed amendment to the Bank Act, and I did not come here prepared to answer all sorts of questions which may be raised

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about the Royal Trust Co. operating under a Quebec charter. I am withholding nothing, but I just want to say that I hope I won't appear ignorant of the Trust Company's affairs, but I am a long way from my office and I can only speak in general terms.

Q. You are not prepared to give the Committee what is the general policy of the Royal Trust Co. in the Royal Agencies?—A. No; I say there is no general laid-down policy; that is a matter of discretion. The application of general rules does not take you very far. You have to take every case, in almost every concern.

By Mr. Irvine:

Q. What has been the practice?—A. The practice is to use discretion.

Q. How often have you used it in that way?—A. That is a thing which is occurring all the time; we have used it in each of those ways; we have sometimes left the insurance entirely alone; in other cases we have said, "We will pay the agent, we will place the insurance in the company where it was before," because being a recognized agent that company could pay us the legal commission, and there is still a third class, we may say to the agent, "You place this insurance through the company we represent; you get your commission and we get whatever the overriding commission is."

By Mr. Marler:

Q. How long has the Royal Agencies been in existence?—A. I think April 1921 is the date of our Dominion Letters Patent.

Q. How large an insurance business has it built up?—A. I cannot answer that in terms of insurance.

Q. In general terms?—A. I can say that the business in the first year, like all companies, we made a small loss; in the second year we made what I think was a reasonable profit; we are only in our third year; so that I think that any agents who may be here will bear me out in the fact that insurance is gauged by the premiums rather than by the gross amount of the risk. I cannot give you the gross amount of the risks.

Q. The Royal Agencies does it aggressively go into the fire insurance business, or does it not?—A. Aggressively in certain parts of the country. In Winnipeg the Royal Agencies Limited maintain a considerable office, and as general agent for the National Provincial Company it sends through the western provinces and chooses the ordinary agents who will write the policies in the National Provincial; in that case it is an aggressive general agent for the insurance companies; in Montreal we have never advertised, but we get out certain pamphlets and things of that sort; we have not yet sent out any canvassers in the city of Montreal.

Q. Do you prefer any particular fire insurance company wherein to place your risk?—A. Yes, we naturally prefer the fire insurance company over which we act as general agent. An insurance agency acts as general agent for one or more companies, and also writes insurance in other companies, but we naturally prefer the company for which we are the general agent.

Q. In the branches of the Royal Trust Company and in the Royal Agencies outside Montreal I asked Mr. Clark a moment ago a question which he was not prepared to answer, are the branch managers also branch managers of the Bank of Montreal in any instances?—A. In St. John, New Brunswick, Mr. A. C. Skelton is the manager of the Bank of Montreal; he is designated as the Manager of the Royal Trust Company, but in that office as it happens we do not do any insurance business either through the Royal Trust or the Agencies, and the Royal Trust has there an experienced secretary of years of

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experience in the Trust Company, he carries on the work; Mr. Skelton's capacity is advisory.

Q. Can you indicate to the Committee any other like instances?—A. No.

Q. You mean to say the managers then throughout the country of the Royal Trust Company and hence Royal Agencies are entirely separate and distinct from the Managers of the Bank of Montreal?—A. There is one exception I had not thought of it, that is in St. Johns, Newfoundland, we have there a secretary of the Royal Trust Company, as in St. John, New Brunswick, and the manager of the bank again acts as our manager, but in an advisory way.

Q. Your branch managers of the Royal Trust Company, do they refer to the branch managers of the Bank of Montreal for advice from time to time?—A. The branch managers of the Royal Trust Company have local advisory Boards in each city, which fill something of the function of a Board of Directors; they refer to this advisory Board for guidance.

Q. And the Advisory Board in these particular cities who would they consist of nominally as a rule, outside citizens or those connected directly with the bank?—A. A combination of both.

Q. In other words there would be some officers of the bank on the Advisory Boards?—A. There would be some, and there would be outsiders.

Q. Can you tell the Committee if these particular outside agencies have any directions to get fire insurance if they can get fire insurance for your company?—A. Yes. The branches of the Royal Trust Company are instructed concerning our interest in the Royal Agencies Limited and are shown that it would be to the advantage of the Royal Trust Company.

Q. And you would naturally desire them to get as much insurance as they possibly can?—A. Guided always by the same principle I have tried to enunciate of showing consideration.

Q. You are only telling us in very general terms?—A. Only in very general terms.

Q. Would you be prepared at some other date to give us more specific terms, or could you enlighten the Committee further in that respect?—A. I would certainly be prepared, except I do not think I ought to be called upon to bring up individual cases, because that is very close to the confidential business of a trust company.

Q. I am trying to get the general policy?—A. I have repeatedly said I think that we do not lay down any general policy; we use discretion in this thing, if this could be governed by general policy—

Q. General policy, the question of discretion, do you feel discretion is exercised just as much in favour of the old agent as in favour of the new agent or the Royal Agencies?—A. No, I do not think so; I mean discretion is—naturally we are doing certain business, and our own agent certainly has the preference, but that does not interfere with the fact that we do show discretion.

Q. In the preponderance of cases that discretion would be exercised in favour of your own agency?—A. Yes.

Q. Let us take for example, a concrete case; a man comes to the Royal Trust Company to borrow \$20,000, and the fire insurance expires a year after the loan commences, supposing the loan commences on the 1st May, 1923, and on the 1st May, 1924, the fire insurance expires, and an agent has his name on that policy, in the renewing of that insurance what would be the procedure and policy?—A. Our general procedure would be to take over that insurance at maturity, the existing policy. We would not cancel the existing policy because to do so, even though we have the right to affect the insurance, if we cancel it the short date rebate the man would get on his own policy would not cover the cost, so to spare him the cost we do not exercise that power until the exist-

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ing policy matures; but as they mature we exercise that power unless there is reason to renew it again.

Q. Generally speaking you cancel the policies as they mature?—A. I think that is a fair statement, sir. I do not want to be too general in any terms.

Q. You would place this insurance through what agency?—A. Through the Royal Agencies, Limited.

Mr. MITCHELL: But you would carry out that same policy that you just mentioned to Mr. Marler?—A. In every case—

Q. Even though there were not a director of the Bank of Montreal or anybody else connected with the Bank of Montreal connected with the Royal Trust Company?—A. Yes. Our object is to increase our business, that is our primary object; the profits are in the thing, but the future of the Royal Trust Company is a bigger thing than any temporary profit or profits of the Royal Agencies. We want to increase the business of the Royal Trust Company, and in doing that we want to be very careful we do not ever-exercise any power.

Q. In other words the policy you have laid out and described here has absolutely nothing to do or no connection with the Bank of Montreal?—A. Yes.

By Mr. Marler:

Q. Might I ask another question; you said a moment ago that it was in the interests of the company to increase its business, I think that is right?—A. Yes.

Q. You also told us a moment ago that the Executive Committee more or less directed the policy?—A. Correct.

Q. I suppose the Executive Committee also directs the policy you are to increase your business in the best way possible, is that right or is that not right?—A. Are we speaking of the Royal Trust Company or the Royal Agencies?

Q. I am speaking of the Royal Trust Company all the time?—A. Yes, the Executive Committee of the directors is most anxious that we should increase our business.

Q. And they know of this insurance agency you have?—A. Yes, they are quite aware of it.

By Mr. Morin:

Q. In connection with this increased business how much of it is attributable to the influence of the directors of the Royal Trust Company because of your business connections.

Mr. MITCHELL: Just a moment. The question that is now being submitted to the witness seems to me to be a matter of purely provincial jurisdiction; that is the reason I asked my question a moment ago. We are here investigating the Bank Act, and whether there was a Bank of Montreal or a bank in Canada, this Insurance Agency and the Royal Trust Company could carry on the business as mentioned, and as described by Mr. Jellett here this morning. It does seem to me that our scope is extending considerably when we are going into a provincial matter and describing something that may happen between any trust company or any loan company or any insurance company throughout the Province of Quebec.

The CHAIRMAN: That might be a consideration when we come to deal with the sections, but inasmuch as it has been covered we might as well get it.

By Mr. Morin:

Q. How much of your increase in business was attributable to the influence and business connections of officers of the Royal Trust, what percentage, ten or fifteen per cent?—A. I am afraid I cannot say that, because a great deal of

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the business of the Royal Agencies, Limited, is attributable to the Royal Trust Company, and the business of the Royal Trust Company is largely attributable to the strength of its directorate and the efficiency of its management, assuming we are efficient.

Q. How much of that business was given to the company by people dealing not with the Royal Trust, but with the Bank of Montreal alone, and the business of which would be given to the Royal Agencies through the influence or business connections of the officers or Directors of the Bank of Montreal?

The CHAIRMAN: Ask him if any substantial proportion of business comes that way, because if you ask him for percentage he cannot answer it very well.—A. We have not derived any appreciable business from the Bank of Montreal. I would like to say we have derived none, but I am afraid of making a sweeping statement because some tu'penny and ha'penny thing might turn up that I do not know of. The bank does insure its own property through it.

Q. In your course of business very few customers of the bank give you their business?—A. Very few.

By the Chairman:

Q. The Royal Trust Company business is to do a general trust business?—A. Yes.

Q. And then to loan money?—A. Yes.

Q. And does any substantial portion of the insurance business come to the Royal Agencies through the Trust and Loaning business?—A. Yes.

Q. Would you care to say what proportion, could you approximate it?—A. I am afraid I could not, because it is a complicated business, and I would have to make a complete examination.

Q. Would you say the greater part of the insurance—A. I would say the greater part of the insurance business of the Royal Agencies comes through the influence of the Royal Trust Company in its various activities.

By Mr. Spencer:

Q. I take it, Mr. Chairman, that as long as there is an interlocking directorate between the Bank of Montreal and the Royal Trust naturally the Bank of Montreal will turn over all the business it can to the Royal Trust Company?—A. Yes; again, having this due regard to the fact that banking and all these other businesses are competitive. We have not even circularized the directors of the Bank of Montreal for their own business, because they have their own friends, and it would not be advisable, and we have not done it.

By Mr. Shaw:

Q. Surely you would not suggest that the connection of the Royal Trust Co. with the Bank of Montreal is of little value to the Royal Trust Co.?—A. Of very great value.

Q. You do get a large amount of trust business through the Bank of Montreal, do you not?—A. Yes; they recommend us in many instances, no question, and the prestige of our directorate which are largely directors of the Bank of Montreal, all this we certainly gain from.

Q. I have no doubt you take full advantage of it, I mean proper advantage of it?—A. I think so, yes.

Q. Do you suggest that your relationship of the Royal Trust Co. with the Bank of Montreal does not enure to the benefit of the Royal Agencies?—A. No, I cannot suggest that because indirectly, as we understand it, it does,

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because the bank endorses the management of the Royal Trust Co., its influence leads us to get business; this had been going on long before we had any insurance agency, and all that accrues to the ultimate benefit.

Q. Supposing a person wants to get money from the Bank of Montreal, we will say a perfectly legitimate transaction, one of the questions which the bank inquires as to his security is as to whether or not it is insured?—A. They would do it, it must be insured.

Q. And if no insurance is placed, and if perchance it is an unsatisfactory company, a non-board company, or something of that kind, would not the manager of the Bank of Montreal be friendly disposed towards the Royal Agencies?—A. I am sure he would be, but only through knowing the Royal Trust Co. is in it, through no instructions; he is forbidden to do anything except in an advisory capacity. That man may go to the bank and say, "Do you know a good lawyer or good?"—

Q. Do you know of any cases yourself in which the Bank of Montreal had recommended to the borrower or the customer that his insurance be placed in the Royal Agencies?—A. I know of no such case.

Q. Not a single case?—A. No, and I think I would be bound to; I think I know enough of the Royal Agencies that I could tell if any pressure had been used—

Q. Not pressure but recommendation?—A. Recommendation, even so; I cannot place my hand on any instance.

Q. You are satisfied it is of some value?—A. Yes.

Q. Some microscopic value?—A. Yes, it is quite conceivable, yes.

The CHAIRMAN: We will meet this afternoon at four o'clock. Professor Adam Shortt will address the meeting. If we are finished before six o'clock with Dr. Shortt we can take up some of the clauses of the Bill.

The Committee adjourned until 4 p.m., May 2nd, 1923.

4 p.m.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: We have with us this afternoon Dr. Adam Shortt, who I am sure is well known to all the members of the Committee, and hardly needs an introduction from me. You are aware that for many years he was Professor of Economics in Queen's University, and in recent years he has been attached to the public service. We will all be very glad to hear Dr. Shortt. He intends I understand, to make first a few brief observations generally upon the subject of finance and credit, and later he will be available for questioning by members of the committee.

Mr. MITCHELL: Have we got a quorum?

The CHAIRMAN: Yes.

Mr. MITCHELL: I think it is very important that we should have as many as possible here to hear Dr. Shortt.

The CHAIRMAN: We will wait a minute.

Mr. IRVINE: Could we deal with the calling of the witnesses now, and have the report of the Committee now instead of afterwards?

The CHAIRMAN: Yes.

Mr. MITCHELL: The sub-Committee met during the adjournment and decided upon summoning Mr. W. L. Baker of Toronto, and Mr. Tom Moore of Ottawa.

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Mr. HANSON: I should like to ask what is proposed to be gained by calling Mr. Tom Moore for instance—this is on the Bank Act or on the resolution?

Mr. IRVINE: I am calling Tom Moore; they asked for him to be called on the resolution.

Mr. HANSON: My remark is just as pertinent with respect to that. I do not see what value his testimony could be to this Committee, an academic question like this. He is not an economist, he is simply a paid agent of the Labour Unions, and I do not think that his information can be of any value to this Committee. For one I propose to register my objection. I might say as to the calling of Mr. Baker, I have known Mr. Baker for a great many years. He has no particular standing in the banking community in this country. When I knew him he was the manager of a small branch bank in New Brunswick. I do not think he has ever risen very much above that. I do not want to suggest anything personal against Mr. Baker, but I do not think he is such an outstanding figure that he would be of any value to this Committee.

Mr. SPENCER: With due fairness to Mr. Baker, considering the remarks that Mr. Hanson has just made, I have a copy of a letter here from the General Manager of the Bank he served in, the Standard Bank of Canada. It is very short indeed, and as Mr. Hanson has rather thrown a shade over Mr. Baker, may I read it.

“To whom it may Concern:—

“The bearer of this letter, Mr. W. L. Baker was in the employ of the Standard Bank of Canada, as Supervisor from 1917 to 1921. Mr. Baker resigned his position to enter commercial business. During his term of office with this Bank we found him to be a man of good executive ability, and in our opinion fully qualified to handle any department of banking business. We have every confidence in Mr. Baker's ability and integrity, and we consider he will give satisfaction in any position he is called upon to fill.

C. H. Easson,
General Manager.”

I just draw your attention to that, because I think it is only in fairness to Mr. Baker after the remarks that have been passed.

Mr. IRVINE: As to the other I do not think it is necessary to debate whether we shall call Mr. Moore. The Committee will admit there is some connection between finance and industrial depression, and I think there is no other man in Canada more capable of giving us evidence on the industrial depression and what seems to be its both secondary and primary causes than the President of the Labour Congress of Canada.

Mr. GOOD: I did not know it was proposed to call Mr. Moore, but it appears to me that it would be quite in order to get the viewpoint of organized labour on a question of this sort, whether or not that viewpoint is wise or foolish.

Hon. Mr. STEVENS: What is the object of calling Mr. Baker? What particular point is he to take up?

The CHAIRMAN: Mr. Stevens, really I am not the person to answer that. It is quite true I did sit in with the members of the sub-Committee and I heard what took place. There are a certain number of members of this Committee who have read Mr. Baker's book, and they think he has made a very strong indictment against the banks, and are of the opinion that he may be of some

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value to the Committee. I am assuming that members of the Committee want him to come here and I hope he is not trying to force himself here. That letter which Mr. Spencer read makes me feel that he is asking himself. I will always oppose hearing anybody in this Committee who presents himself.

Mr. SPENCER: As far as I know he has never asked to come himself.

Hon. Mr. STEVENS: Just before you conclude your observations, this is the reason I ask the question. I read Mr. Baker's book with a great deal of interest and a great deal of care. I think his book would have been of some value if it had not been impregnated throughout with a personal grievance against the banks and against the Banking and Commerce Committee of this House who turned down a charter for a bank in which he was interested, which detracts in my opinion very much from the value of his book.

Mr. POWER: Were you on the Committee?

Hon. Mr. STEVENS: Yes. The point however that he brought out has been discussed here almost every day since this Committee has sat, namely the point of whether or not the capital of banks has advanced in a sufficiently rapid ratio with the work or business done by the banks. That is the only point in his book; and I submit this, that I believe Mr. Baker's evidence will be the prejudiced evidence of a man with a grievance against this Parliament because this Parliament refused him and his associates a charter; and by the way the charter refused was the Western Bank which I think I supported, the first granting of it, just merely as a member of the House. I introduced the Bill. It was for that reason that Mr. Baker wrote his book, and I doubt very much the wisdom of having Mr. Baker before this Committee. Any of the members of the Committee can read his book and get out of it the merit of it, and there is some merit in the point he made, but that question has been discussed almost every day.

Mr. SPEAKMAN: As I brought forward Mr. Baker's name, I will give the reason for the request. First, it was at the request of a very considerable number of members in the Committee. As far as Mr. Baker's ideas are concerned I hold my own views, and I hold my own opinions in reservation until I hear them. There are two facts that stand out very clearly though. The first is this, that he has made some very serious charges against the banks, and those charges are being read and are being believed by an increasing number of the people in Canada, whether they are right or wrong. That being the case I think Mr. Baker ought to be here to be asked questions sufficiently to substantiate or destroy his statement, and to give us an opportunity of seeing whether those charges are substantiated or not. Now, as regards the book being impregnated with prejudice that is simply imputing a motive for writing the book. I do not know that we are in the business of imputing motives. We have to take his evidence on its own face value. We can consider the imputation of motives for ourselves. As far as being a prejudiced witness is concerned probably he is. He has got his case. Is there any banker who has come here as an unprejudiced witness? They are all bound to stand up for their side of the case. I do not think Mr. Baker can be considered a prejudiced witness any more than others who have appeared. He has his own particular view to uphold in the Committee. For those reasons I brought forward specially his name, and I intend to support his name here.

Mr. RYCKMAN: A word or two, Mr. Chairman. I desire to say that I think the expenses of this Committee are running into altogether too large a sum. It is very interesting for us, very entertaining, and I have no doubt very informing, to hear as many gentlemen as we can; but I have been told—I do not know how

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accurate the information is—that the expenses of this Committee have already cost this country \$50,000. It may be an item that does not concern us personally, but so far as I am concerned, I think we should try to economize even in the sittings of this Committee. It does seem to me that when one school of thought has been heard from, and we have had what that school desires to advocate placed before us, then something ought to be left to the experience and the knowledge of the members of the Committee themselves. We will have to decide upon these matters. Perhaps some witnesses may give us a further ray of light, but I think the chances are very doubtful. For my part and without making any invidious distinctions, I think one of the witnesses who was called this morning, brought from a long distance, did not add one iota to the information that the Committee already had. Now if we are going to hear every one who will interest us, where shall we end? I think we have heard enough from the bankers. There is no banker on earth who can be called—unless it be some outstanding world authority—who can add to the information the bankers have given us. It therefore seems to me that we have gone as far as we should in hearing representatives of the banks.

With regard to the financial scheme or proposal that has been put before us, if there is someone with a new idea let us hear him; but if it is a question of going over the same ground that has been covered here morning and afternoon in this Committee room, I for one wish to register an objection, on account of the expense to this country.

Mr. GOOD: Mr. Chairman, I have every sympathy with the point raised by Mr. Ryckman, but I think we ought to remember the statement made by Professor Fisher the other day as to the amount of robbery that was accidentally perpetrated in the United States through price changes during the last few years, forty billions, as has been calculated. So far as Canadian agriculture is concerned—I am not imputing any motives to anybody—but the effects of certain financial changes in Canada during the last few years run up into the hundreds of millions. If we can find any solution of these problems, that \$50,000 is not a drop in the bucket.

The CHAIRMAN: Mr. Ryckman, I can inform you that the expenses of this Committee do not approximate that amount by any means at all.

Mr. RYCKMAN: When you include the expenses of the witnesses the shorthand reporting, the printing of the reports, and so on, I do not think the estimate is far out. But I suppose we will have a chance to pass upon the bill. I would like to see it.

The CHAIRMAN: Well, Gentlemen, I think hereafter we had better not refer the question of witnesses to the sub-Committee but deal with it as a Committee, and the Committee will have to take the responsibility of calling further witnesses. I do not think anybody should ask for further witnesses except for some specific reason, and we should not go over the ground that we have gone over time and time again. If Mr. Baker is called, I am going to rule against travelling over ground that has been already covered, and I am going to ask the Committee to support me, because there is no use wasting time in repetition, and there is no use in discussing obvious or irrelevant things, I am going to be as firm as I can in keeping the Committee to a consideration of the matters before us. Many honourable gentlemen, members of this Committee, come to me and criticize me for giving such latitude to witnesses. That is a very difficult thing to decide. It is merely a question of judgment, and so far I am satisfied I have done the right thing. I do not see any objection to calling Mr. Moore, who is handy, and he should not take many minutes; I do not think it is possible for him to occupy the time of the Committee to any great length on the resolution and I do not

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think Mr. Irvine will ask him to. But I can see why Mr. Irvine should ask for Mr. Moore and I think it would be better for the Committee to accept his suggestion. Now, gentlemen you have heard what has been said about Mr. Baker, pro and con. Apparently there are quite a number of members of the Committee who desire to hear him. I am going to vote that he be called, but when he is here he must be kept right to the issue. He cannot discuss whether or not the Commonwealth Bank should receive a charter; he cannot open his mouth on that because Parliament decided not to give it to him, and it would be an offence against Parliament on our part if we were to discuss it; we are not constituted for that purpose.

The motion is that Mr. Baker and Mr. Moore be called as witnesses. Those in favour will hold up their right hand.

Motion declared carried.

The CHAIRMAN: I may say about another witness, Mr. Swanson, whom the Committee approved of calling some weeks ago, that he will be here early next week. The only reason he has not appeared before this is on account of illness in his family.

Mr. MORIN: What about Mr. Ford?

The CHAIRMAN: Mr. Ford is not coming. We will now hear from Dr. Shortt.

Dr. SHORTT called.

WITNESS: Gentlemen, having heard the remarks with reference to not covering ground that has already been gone over, I will be brief.

The CHAIRMAN: Your ears were supposed to be closed to that doctor.

Dr. SHORTT: I simply wish to say that I approach this subject from the point of view of a student of finance and banking, with rather a special knowledge of the history and development of its aspects in this country. In order to avoid dealing with theory, I wish to illustrate the essential elements of the financial and banking system as we have it now, including money, credit and banking, in a very brief survey of the stages by which these various factors came in and how they are related to Canadian conditions. That will make it a Canadian problem with reference to currency and banking.

I shall pass over the French period when they duplicated much of the experience of the last few years in Europe, and came to exactly the same results. We are putting out a book on that subject with all the documents.

Among the early settlers in Canada there was of course a great scarcity of money. The only money that was recognized was the current miscellaneous coins from Britain, from France, left over from the French period, Spanish coins, and coins from the United States, which again were chiefly a collection of British, Spanish, Portuguese and other coins. These were listed at an early stage, right after the conquest, as to their value, and they constituted the legal tender of the country. It was a pretty ragged affair because these coins were not very closely related to each other in intrinsic value. The scarcity of that money required the adoption of other alternatives, and that is where the credit system began.

That credit system may be said to have begun with the farmers in their relation to the millers and storekeepers. Being far removed from central markets, and from central ports they had to produce nearly everything they needed in their own locality and they could export only a few things from Upper Canada, such as wheat; later on, flour, potash, and timber. Those were the

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three staples. There were many other things incidentally, such as fish, dairy produce and so on. Now it was a matter of convenience for the men who established the various centres to build first a sawmill, then a grist mill, and associate with that a general store, and also a still, because nobody could get on in Upper Canada or do anything, such as raise a barn or a house, without whiskey. That being so, all these things were concentrated under one hat as it were. Then associated loosely with these were a blacksmith, who really was a general manufacturer in iron; a carpenter, who was also a miscellaneous man, helping with furniture, a shoemaker and so on.

Now it was convenient, and found to be necessary, that when for instance a man brought in from the backwoods a load of potash, or a couple of loads of wheat, he went to the man who had the mill, the store and everything else, and disposed of that for what he could get. Commonly the storekeeper could not pay him in cash, or could give him only a very little cash; but it was not cash he wanted. He wanted supplies. Consequently you find that he was running an account at the store and with the mill, up to a certain point, we will say \$35 or \$40. Assume that he brought in material worth \$100 and delivered that. He owed \$40 and he paid that off. He took goods and supplies to the extent of another \$20 and he had \$40 left. Now he had people working for him or he was getting things from other people. What he did was to issue an order on this general storekeeper and miller, to these people for goods, and that order took the shape of a bill or order to give to Mr. So-and-so \$10 worth of goods and charge to his account. Mr. So-and-so went to the store with his \$10 and got the things he wished to get to the extent of \$10 and handed in the order. Or he might only get \$7 worth, in which case \$7 was endorsed on the order and he was still entitled to \$3. And when it was used up the man kept the order and charged it against the farmer. That was the method.

Another development of that was what was known as the "due bill." In other words, the farmer got an acknowledgement from the merchant for certain sums, which acknowledgement he could hand over to other people for work done, for supplies and so on. Thus, curiously, you have the elements of the deposit and currency system, but you have no regular system of currency, either national or banking.

Now it was but a step from that for this central merchant to hand out his own notes in convenient sums of half a dollar, a dollar, two dollars and so on, and issue these to people sometimes in return for goods, sometimes as an accommodation in anticipation of grain, potash or lumber to be brought in. And thus you get the first circulating medium in paper; the promises to pay of these merchants. That served very well for purely local purposes, but you can easily see that the further from home, the less known he was, and his credit carried less and less.

Obviously, the next step was to establish some person or combination of persons with a larger credit, whose credit was known up and down the country and would be accepted up and down the country, and so you have the first beginning of a bank.

The first bank in Canada was attempted to be established in 1791. The next effort was in 1808 but that was squelched by the beginning of the war. Then we had the very interesting experiment of the Army Bills, issued by the Government, on the authority and charge of the British Government. They were circulated in Upper and Lower Canada and were convertible, at the option of the holder, into bills of exchange on London, and so they came to be really redeemed in goods brought to Canada. You can easily see that they would never fall below value because the imports were always greater than the exports, and they were always cashable in London. Now that had

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proved to be a very great convenience, and when these were withdrawn the dislocation of trade was obvious; so they started again to establish a bank, the effort being made by much the same parties who had attempted it in 1808. That was to be a combination of a private and a public bank; that is, the Government was allowed to take shares in it. In fact it was almost an exact reproduction, with just a few variations, of Hamilton's scheme for the first Bank of the United States, and on the same basis. That is where we got our system, as Sir Edmund Walker pointed out the other day. Our Canadian system is a legitimate, continuous, unbroken development from Hamilton's Message to the first Congress of the United States under the new Constitution. The first Bank of the United States was a wonderfully successful bank with branches all over, and was killed only because it was discovered that the great majority of the shares of its stock were held by British capitalists. It was renewed in 1791 and again about to be renewed in 1811, when the war came on, and it was turned down because they imagined it was a stranglehold that Britain had on the United States, although no British subject was allowed to be a director or an officer of it. That is the way it went in the United States. Here, in Canada, the system was kept on and the Bank of Montreal was the first to be established. After two or three efforts to get it through the Legislature in 1817 as a private institution, it finally got a charter in 1822.

Now we come to the continuation of this process of handing out paper redeemable in the coin that is legal tender. But from that day to this, we have had no change in the basis of issue of paper money by the banks.

At first, the statistics show that everybody who borrowed money at the bank, or nearly everybody, took out the money, stowed it away and paid it out as needed. Then a few people began to leave their money in the bank. Instead of drawing it out and paying it to others, they began to get it only when they needed it; but still the vast majority of payments, even of merchants to each other, were made in banknotes. Then when a number of merchants concurrently used the Bank of Montreal, and shortly afterwards the Bank of Quebec and the Bank of Canada, the point was, why take money out and pay it over, if the other fellow immediately put it back again? Why not issue an order, just as they had on the general store, to pay Mr. So-and-so so much money? So they issued these orders, and these were the first cheques. Beginning in a very simple way, those who had accounts at the bank did not draw out their money, but left it there and drew against it. The majority of those who received cheques had no accounts at the bank, and so they drew the money out and kept it, paying it out as they needed; and thus it stayed in circulation with the majority of the people in their tills. Nearly everyone at that time had a more or less strong box. Some were manufactured by the blacksmith in the country districts, a few were imported, but that was the idea, to have a strong box to keep your money in. Gradually the system extended; more and more payments were made by cheque, and fewer and fewer, in proportion, by taking the money out and handing it to another man who put it back. Thus we developed the cheque and deposit system.

Now the discount system was developed as the bank discovered that it could afford to lend money on security and thus give a credit. Most of that again was taken out but gradually it came to be left and so there began at a very early period the building up of credits, leaving discounts on deposit.

It has been acknowledged by some of the bankers and I wish to emphasize the fact that bank deposits grow in two ways:

First, by the deposit of money or of cheques received by parties for goods.

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Secondly by loans. You get a loan from a bank, and the party who negotiates the loan does not draw the money out but leaves it in the bank intending to draw cheques against it. And where you have the gradual development of a number of banks, it circulates around, it does not matter whether it remains in that particular bank or is deposited in another, because there was developed at an early stage the clearings. Now the first clearings were in cash, but gradually they came to recognize that the clearings would be better if grouped. So that the advantage you get of having the clearings done through a bank should be extended through a clearing house. Therefore it did not matter how much they dealt with different banks the cross charges largely cancelled each other and in the end one bank had to pay out to the others a certain balance, or receive a certain balance, and it did not matter to them how they received it as long as it was legal tender. And so there came to be what was acknowledged as legal tenders. There came to be Government notes available in that way. Then the bill of exchange. There was a good deal of formality about it, but that came to be a small matter too. When a man took a bill of exchange for a large amount, drawn against potash or lumber or grain shipped to Britain, he went to the bank with it because he found he could get more from the bank than from anybody else. Moreover, while many wished to get exchanges, they did not wish to get the amount another had, so it was conveniently handed into the bank in bulk and drawn against in bank exchange, the amount of exchange they wanted on London. But the largest amount of it came in the first place from Government charges against London, that is, expenditures on militia and various Government affairs in Canada, which were drawn against the Commissary General, London. Then later on we had the development of the Dominion note. It is an old story, because Government bank connection was intended to be started in 1808. It actually started with the Bank of Upper Canada in 1822, when the Government was allowed to take a number of shares. This established a Government connection with the bank and that was one of the greatest matters of commercial contention in the country—the Government influence with the bank. William Lyon McKenzie and all those reformers in Upper Canada denounced that bank for being connected with the Government, all the way down. Then came the financing of corporations directly by notes, particularly such corporations as the Welland Canal, the town of York and the town of Kingston, and if you go to New Brunswick, you have the town of St. John, all issuing their own paper money, redeemable in the shape of taxes or in other things. Then I might use a parallel with this feature, of three governments issuing paper money, the government of Nova Scotia, the government of New Brunswick, and the government of Prince Edward Island. The odd thing was, to connect that up as a matter of history, that another private concern, Samuel Cunard & Co.—the founder of the great Cunard Line—he and his brothers issued notes in Halifax, and owing to the over-issue of the notes of the provinces of Nova Scotia, Prince Edward Island and New Brunswick and the constant redemption of Cunard's notes, Cunard's notes stood at a very considerable premium above any of the provincial notes. The highest premium was on Prince Edward Island notes, the next on New Brunswick notes. This largely irredeemable government paper money in these provinces was a curse to finance and they struggled to get rid of it, but the difficulty of paying it off was the difficulty of getting funds to replace the notes. So you have fiat money in actual experience alongside of private money, and the private money at a premium in all cases. Now, the last point is simply the introduction of the Dominion note.

By Mr. Good:

Q. Can I interrupt to ask a question. You have spoken about the private money or the state or provincial money and the private money being redeem-

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able. In gold, do you mean?—A. In gold or silver, whatever coins had been listed as legal tender.

Q. In metal?—A. Yes. There have been various efforts, as I say, to get a central Government issue, and it was finally worked out by Mr. Hincks in 1871. As you know, he took over the minor issues of the banks, below \$5, and made those Dominion issues. There was the Bank of British North America, which had the right under its charter, to issue \$4 notes. That was the exception; all the other banks issued \$5. That worked very well, because it furnished at that time a uniform currency throughout Canada. Up to that time the banks were perfectly sound, but you had to take their notes and send them long distances to get them redeemed. The other banks would redeem them for you, but they would charge you a discount, just as they do now for cashing a cheque at other than the office where you have your deposits. So you had this exclusive issue up to a certain point, but as it stopped there it did not inconvenience the Government, because the banks discharged the whole function of distributing the money. From \$5 up, they distributed their own money. Then the Government had gone on issuing large legals, used chiefly in making the balances in exchanges. Now, as outlined, that system was to be kept on the gold basis, first by the banks and then by the Dominion. The Dominion took over the responsibility of making the gold redemption and permitted the bank to hand out government notes as legal tender. So it was only necessary to draw from your own bank Dominion notes and go to the sub-Treasury and collect the notes in gold. But the banks having gold on hand did not stand on that very heavily, but would hand out ordinary gold just as in the United States. It was a two-step instead of one-step business. There you get the business of note issue, effecting loans, making deposits, redeeming loans, abolishing deposits; you get the whole machinery growing up from these things, to the present day, and there are no new principles, but simply a combination of those, and an enlarging of the business with conveniences and inconveniences, as a result. That is the system, as we have it to-day, and it is based on a gold basis. All I have to say about the gold basis is this: the convenience of the gold basis is that it is an automatic registering of exchange values, internationally as well as domestically. You can, I am quite prepared to admit, use irredeemable paper money in a country without gold. You can, but it is very very difficult and very very dangerous work. I do not wish to go into the particulars. You can ask me any questions you like about the concrete difficulties that have come from that. Unfortunately the political situation results from the central Government trying to finance or assist in financing the necessities of municipalities or any other corporations, and particularly public bodies, because they depend on the same basis. As to the support for that fact, it is a matter of record that irredeemable paper money may be maintained in circulation at an international level. The finest example of that in concrete is what France did after the Franco-Prussian War. As you know, after the Franco-Prussian War, they had to collect the great mass of their available gold from public and private sources, and hand it over to Germany. Then they put a committee in charge of the paper money, irredeemable for the time being—that committee was in charge of the issue and the regulation of that. A large amount of money constantly comes in for taxation, and the question is how are you going to issue it. If you utilize it all, you pay it out just as it comes in, but the function of this committee was to sit there constantly in order to determine from the rates of exchange and the bank rate whether this paper money was getting too large or too small, and that would be reflected in the rates. So if it were becoming too large, what they did was to allow it to accumulate in the Bank of France, in the government exchequer, and not pay it out. Thus it automatically contracted. When things became sound again, and came back to normal they could then begin paying out, and so the government

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had to regulate its expenditure according to the conditions of trade. That committee managed for several years, I think about five years, to keep the irredeemable paper money on a singularly level basis as regards international trade, and domestic trade, and that is how it was done. Any country can do that, if it cares to go to that trouble, but it is a very troublesome thing. It requires very exceptional men to handle it. It is a handicap to the government in its taxes and expenditure, and it is altogether a crude way of doing what can be so automatically and nicely done by a gold reserve, which automatically regulates the thing backwards and forwards. Statements have been made over and over again that seem to indicate that you have to have enough gold on hand to redeem all the things that are redeemable in it. That again is a pure matter of experience. As a matter of fact, the gold variation in any country is merely a question of a small proportion between come and go. But where you have a credit system working so thoroughly and on such a sound basis and with so much collateral security as you have in a country like England, you can have an enormous business nationally and internationally done by England on the smallest recorded gold basis of any section of the world. Other countries, like South American countries, whose system of management is doubtful, have to keep huge resources of gold. How much gold is needed is a question of experiment—the credit of your banking people, the credit of the government, the ways in which you handle your exchange, and the hundred other things that go to make up a finished perfect system of exchange. That is the basis of the statement I have to make, and if you have any questions to ask of me I should be pleased to answer them. I wished to relate these things together in order that I could refer to them in answering questions as to how these elements operate.

By the Chairman:

Q. Did you hear Mr. Bevington's statement?—A. I did not hear it. I read it.

Q. What did you think of it? And if you do not think well of it what is the weak part of it?—A. The trouble with it of course is just as Mr. Fisher indicated, and these gentlemen acquainted with our system say that it does not contemplate regulating the issue on the basis of the currency need of the country. Now, currency need is not the need to borrow. It is the need for exchange, and the process of exchange is that mechanical process of balancing things backwards and forwards. I might say that apparently Mr. Bevington is trying to use money in the shape of capital, which it is not. Money is not a commodity. Money is not capital. Money is a medium of exchange. If it happens to be gold money it is also a commodity as regards the amount of gold in it or silver in it or anything else, but when it comes to paper, the paper value in it of course is very small. The money system therefore cannot function as capital, but it was capital that Mr. Bevington wanted to contribute to the country, not money. I will give you a definition of the three elements that I consider make up the financial system. There are commodities—goods that themselves meet human wants. There is credit in the shape of credit documents, and these are very miscellaneous, very varied—and there is money. Money is a circulating medium, for the discharge of exchange functions, but is not a commodity. A credit document may be general or special. A bill of lading for so many bushels of wheat is a credit document, entitling the party who holds it to claim that number of bushels of wheat, in transit. A warehouse certificate is the same but relates to a given place as an elevator or other storage place of that kind. But in the wheat business there may be hundreds or thousands of contracts to deliver wheat, and these may aggregate fifty times the amount of wheat in the country. But the

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bills of lading and the warehouse certificates cannot exceed the amount. So you see the way one is tied up and the other not tied up, and the same applies to credits and credit documents.

By Mr. Hanson:

Q. What do you say as to the redeemability or irredeemability of Mr. Bevington's proposed issue?—A. It is not essentially intended to be redeemable. To my mind, of course, it rests on a completely wrong definition of credit. Let me give you a definition of credit which may be discussed, which I think will certainly answer the purposes as I understand it and as I find it functioning in the banks and so on: "The substance of economic credit is the confidence which one person inspires or creates in another as to his ability to meet a definite pecuniary obligation at a specific time and place." That is credit, and under "person" I include all kinds of corporations and governments. Much is said about the public. There is no such thing in credit as "the public." The public is a convenient general term for miscellaneous things, but it has no definite content. The public includes the Dominion of Canada, the provinces of Canada, the municipalities of Canada, and so on. Take any list of securities and go down it and see the different prices attached to the public credit; Dominion bonds sell at one price, they sell at various prices according to the time of redemption, and so on; the provincial notes vary, the municipal notes vary in quality, that is in price, and yet they are all public, they are phases of the public in that sense, but there is no such thing in concrete business as the public. The public never buys anything and the public never sells anything, and therefore the public cannot hold money and cannot be a basis of credit.

By Mr. Woodsworth:

Q. Dr. Shortt has traced the development of our present currency system. Is there any real reason why under existing circumstances, the government could not issue its credit, all its credit, that the credit issuance should not become essentially a government monopoly—the issue of currency I should say?—A. No, it might, it is only a question of whether it is efficient. In view of the frailties of human nature and the frailties of governments, as St. Paul says very well, "We have these treasures in earthen vessels," and the earthen vessel may go to pieces every now and again; it is a question of the stability and the utility, that is all, but the government *could* issue all.

By the Chairman:

Q. You mean supported by gold?—A. I say supported by gold, yes, but either; I have said it is possible to support a paper money without gold, but I have shown—

By Mr. Hughes:

Q. Just as they did in France?—A. Yes.

By Mr. Ladner:

Q. Perhaps Dr. Shortt would explain the operation of the Provincial Note Act of 1866. I believe that was where the government actually undertook to control all note issue; first they endeavoured to force the banks out of note issue, then they endeavoured to induce them by certain inducements—if Dr. Shortt would explain that to the Committee it would be disclosed there, the futility of that effect.—A. That is rather a complex thing. I have stated all that in a chapter in the journal of the Canadian Bankers' Association, but it was not a similar statement at all. They never were altogether deprived of their note issue; there were schemes to deprive them, and after trying one

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way and another the government finally made an arrangement with the Bank of Montreal that it should give up its note issue entirely and circulate the government note issue.

Q. The Bank of Montreal was a government bank, and the government owed them two and a half millions, and they did that, but the other banks did not?—A. No, the other banks still held on to their own circulation, and there were various attempts to penalize them by a tax on their note issue, and so on, but after it had been tried it failed, and it ruined three successive Finance Ministers until Mr. Hincks.

It ruined the Commercial Bank and a number of others?—A. No, that is not what ruined the Commercial Bank; that was quite a separate affair, and the Bank of Upper Canada went down finally at that time, although it had been ruined ten years before, and was simply held because of the government's support.

By the Chairman:

Q. Did the Province of Upper Canada issue these notes?—A. No, but United Canada made this effort.

Q. And they actually issued notes?—A. They issued through the Bank of Montreal, but not through the other banks, and the Bank of Montreal agreed to give up its circulation for the time being; it resumed afterwards.

By Mr. Good:

Q. I want to ask Dr. Shortt if he is in agreement with Professor Fisher that the maintenance of the price level at a constant figure is highly desirable for the success of civilization, we will say—you are in entire agreement with him on that point?—A. Oh, no; I just wish to say this, if you maintain price level that is a very desirable thing, that is if you can avoid the rise and fall in prices, a very desirable thing; but I am convinced, and have threshed this out for hours with Mr. Fisher long before he came here that Mr. Fisher's scheme will not do it, that it is putting the cart before the horse; you cannot regulate that by a variable dollar or anything of that sort. You can vary it to a certain extent by what he suggested, the general scheme, that is of the regulation of the advances or contraction of credits, but even there only very partially. The trouble with price levels is this, and here is the fundamental feature; you have a market for a particular line of goods, we will say it is boots and shoes, that is a constant matter of demand. Well, there comes to be a flush time and people are wanting to buy boots and shoes. That induces the retailers to carry heavier stocks, that makes a great demand, and to meet the demands of the consumer they load up their shelves with this stock; also the wholesaler. The manufacturer finds that he has got a big demand for his shoes; he or some others say "There is a good opportunity to manufacture boots and shoes," and so they borrow capital or use their own accumulated capital in enlarging their factories, some of them in putting up new factories to get the benefit of the profit on the manufacture of boots and shoes. It takes time to get those results. In the meantime this boosting of prices is going on; but by the time those factories begin to pour out their enormously increased product they kill the market.

By Mr. Kellner:

Q. Is the rise of sugar due to a scarcity?—A. I have only followed that a little; I think it is due to a temporary scarcity, not absolute, but relative, plus the speculative buying up of sugar for the rise. That freezes or paralyzes an immense amount that would otherwise come on the market.

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By Mr. Hanson:

Q. In connection with that, to maintain the price level, Professor Fisher's scheme as I understand it, more or less disregards the laws of supply and demand, does it not?—A. He does not intend to, but the trouble is you see, as he told you over and over again, he is not interested in any single commodity; he is looking at the index number for an average; all he wants is to get a dollar that runs according to the average. Now the odd thing is, if you care to analyze these averages, that you will find that it is quite consistent with putting your boot and shoe factories out of business from loss, because some other element, sugar or whatever it is happens to be going up at the time, and you get the same index figure in two years, although the details are extremely different as he admits, and therefore you are trying to regulate prices on averages. You cannot do it. Moreover, this adjusting of the dollar every now and again is impossible; in other words you are looking to your thermometer and trying to regulate the thermometer by holding a match under it to adjust it, or cooling it down with an ice jacket when it is the temperature outside; it is the wave from the north that you want to get rid of; it is this question of unadjusted production and consumption. The desirability is absolute, but you can easily see you have to go far more fundamentally than that.

By Mr. Good:

Q. I am afraid Dr. Shortt has a different conception of what Professor Fisher said than what I have, and also I think he has misunderstood my question. What I had in my mind was the desirability of maintaining the average price level. I think everybody is prepared to admit that there will be very great variations in prices of all kinds of commodities and services too, but I was wondering whether or not we could have an agreement on the desirability of maintaining the price level constant?—A. I have said I absolutely regard that as a very desirable thing.

Q. I would ask this further question as to whether or not Dr. Shortt would agree with Professor Fisher in his statement—at least I understood this to be his statement yesterday or the inference from his statement—that the maintenance of a constant price level would do a very great deal to prevent such a boom in a particular commodity as Dr. Shortt has just described?—A. But Mr. Fisher explained to you—I heard him explain that here, you will get it more fully in his book—that he is not particularly interested in the individual commodities; what he is interested in is maintaining the average price level, because it is this average which is reflected in the dollar. It is not this particular industry that determines the dollar and its purchasing power or anything, it is the average; and all I say is that Professor Fisher's method will not determine that. Now, Mr. Fisher explained to you very properly—and I may say that outside of that particular feature of his address I think I absolutely agree with everything else that he said here, and quite generally, because I have met him many times at the meetings of the American Economic Association, and we threshed out all these things, and I think he is generally sound—but take what he said about the variation of the Central Reserve Bank and how they bedevilled things by over-issue, and then equally destroyed a lot by the sudden curtailment. If your Central Reserve Bank is operating like that what becomes of the stabilized dollar? Take all kinds of instances.

Q. But did he not say that this particular device as to the amount of gold in the dollar would be quite inadequate in itself?—A. Yes, inadequate.

Q. However, I do not know that we ought to be concerned just now with the study of the methods of stabilizing the price level, as long as we are agreed

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that it is a tremendous evil to have it fluctuate as it does fluctuate, and it is eminently desirable to have some method of stabilizing it?—A. If it will work.

Q. I may say, Mr. Chairman, I think political economists, if they are of any use, ought to be able to help politicians and governments in tackling a problem of this sort. In regard to the proposition made by Mr. Bevington, is it Dr. Shortt's opinion that the danger there is in the inflation of prices, and so on?—A. It naturally leads to that.

Q. If that particular part were provided for by some kind of, whether it be a gold standard or gold basis or some other method of controlling the issue, the other aspects of the proposition are quite proper?—A. No, I could not say that. I think, if we had time to go into it, I would like to start with Mr. Bevington's definitions of credit and show you how they will not operate, that is that they are up in the air and they bring in elements that have no relation to business, actual concrete business. That gets him off on another track you see. Of course logically it works out but it goes wrong at the bottom, and therefore it never can come right again. The situation with reference to the issue of credits is not merely to provide a circulating medium; if that were so then it would only mean this, that instead of the banks furnishing the large part of the currency of the country the provincial governments would be furnishing it on the loans of the Dominion Government; but that is to say that currency can regulate the production and consumption and meet the needs of the country, which it cannot, because currency is related to the function of exchange, and it falls below or rises above, as the case may be, the capital requirements of the time.

By Mr. Ladner:

Q. One question on the statement about the 40 per cent of the Dominion notes being kept as a reserve, forming part of the reserve; we were told the banks must keep that, that of the bank reserve there must be 40 per cent of Dominion notes; I was not quite sure when did that arise and for what reason did the bank keep 40 per cent in Dominion notes?—A. In the first place, the object was to require the banks to give circulation to government paper, and the banks for their own safety kept a certain reserve. Now, they might keep that in other securities or in gold or in exchanges; the government in order to insure that it would have a large issue of Dominion notes required that they should keep 40 per cent of their reserve in Dominion notes. It did not say how much reserve they should keep, merely whatever reserve they did keep they should keep 40 per cent in Dominion notes.

Q. That was really for the benefit of the government?—A. Yes, and it was frankly stated at the time.

By Mr. Irvine:

Q. I think it is a pity we have not got a chance to read the evidence of Professor Shortt before we ask questions, because while he spoke very shortly he put a very great deal into his address. I have noted a few points here. What would you say that any note is ultimately redeemed in?—A. The note may never be redeemed, but it should ultimately, all notes should ultimately be redeemable in gold, which means that that slight margin which calls for redemption shall be in gold. It is a very slight margin; but I may qualify that by saying, when you get an upheaval such as a world war, your gold reserve and its whole function goes; the basis goes, because it is not calculated to meet any such abnormal situation; it is calculated entirely for normal conditions.

Q. But you agree that no man wants gold for the sake of getting gold?—A. He does not, unless he is a manufacturer.

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Q. He would not want it, only tentatively in any case. What he ultimately wants is goods?—A. Well that is a very long ultimate. If I, for instance, start in as a young man, and am anxious to build up a great business and be a great success in the world as a businessman, I accumulate and accumulate, and I am not converting it into goods for consumption. You cannot conceive of Mr. Booth here for instance, or Mr. Rockefeller or any of these people accumulating money in order to consume goods.

Q. Do I understand in this answer you are referring to savings or to the principle by which a man saves anything?—A. Yes, saving and investing. He probably would not save if he had not an opportunity to invest.

Q. How does any man save anything?—A. We may say a man is a farmer and he has had a good year and has a thousand bushels of wheat; he can pay off, he says, "all I want to pay with 600 bushels, and I will save the 400." He converts that into, we may say, a bank credit. That is, he sells his wheat and he gets his cheque on the bank. He deposits that cheque for \$1,000 or \$1,200 or whatever it is, and draws out gradually to meet obligations and for what he wants to spend now, but he has \$400 over. It is a question with him whether he will leave that on deposit at three per cent or buy a Government security or buy anything that will be saving, that will save his capital and at the same time furnish him with interest.

Q. You would agree with me, I have no doubt, that the only way a man can save surplus commodities which he has produced is to get someone else to consume them?—A. No, he lets that take care of itself.

Q. I understand he does, but could he save possibly his potatoes or eggs or wheat or anything else he produces if someone else was not there to consume them, because they have got to be consumed to be saved.—A. If they are perishable goods, yes. If not perishable goods, no.

Q. All goods, I understand, are perishable; it may be a matter of days and years sometimes but that is all.—A. Yes, it may be fresh fish which will perish unless put in cold storage, in 24 hours. Or it may be the tomb of Tutankhamen, which will last 4,000 years. If you take the range between those, quite so.

Mr. IRVINE: But it would cost so much to keep anything whatsoever for 4,000 years that it would not pay any one to try that. He would lose more on that scheme than by saving the thing itself.

The CHAIRMAN: If he could not sell that 400 bushels of wheat in 1923 it would probably have grown in 1924.

By Mr. Irvine:

Q. Still, of necessity, Mr. Chairman, and I think the Professor will agree with me, that in the main the only way any man can save what he is producing is to get someone else to consume his surplus?—A. No, by implication that implies that it is going to be consumed now. A man may invest in a fine painting and he puts that on his wall and he enjoys it, and he expects to enjoy it indefinitely. When he is through with it, it may descend to his family and they may find that they can sell it for five or six times what he paid for it. There is no interest accumulation by agreement or anything, but it is there. That picture is not consumed, surely. You are using consumption in a way that implies—at least so it seems to me—consumption within a very short time. That applies only to a certain line of goods.

Q. You have selected a very excellent illustration, Professor, for your point, I agree; but I think you would also have to agree that economically speaking, the man who purchased that picture was consuming it. And in the next place I think you would agree that it does not represent the commodities which pass as necessities to human life, would you?—A. I give you the instance of a picture but I could give you scores of others.

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Mr. IRVINE: You would have some difficulty perhaps but still you might give me some.

The CHAIRMAN: Take a young cheese, for instance; some people will pay more for it when it is so old that it is walking around.

The WITNESS: I am for instance a buyer of books and what I discover is that when I want a book that I am particularly interested in, that was published perhaps in 1740, I have to pay a very high price for it. It has been lying around in libraries from the time it was published until I buy it; or I can go to a bookstall in London and buy a book for sixpence, that is another book published at that time. So I think I would be contributing to a misleading statement if I said that everything must be consumed in that sense. If you mean that it passes into the possession of someone else, well and good, but that is not consumption.

By Mr. Good:

Q. How would that apply to service? How can you enjoy service without, so to speak, consuming it, any kind of personal service?—A. As I say, if you mean by consumption that I use it, that I am using up a picture when I look at it ten times a day, or consuming a book, when I open it and read two or three pages now and two or three pages again, yes. But that is carrying with it an implication that it may not be later brought back, on the consumption of it. If that is so, then a man who takes a cheque and deposits it in the bank has consumed it because he has put it out of his hands and deposited it away there, but he is going to come back and draw against it, and if I put a book on my shelf I may say that book in 10 or 12 years will not be worth the paper it is written on; or I put another book on my shelf and I say I paid \$20 for that, but by the time I come to sell it it will be worth \$50.

The CHAIRMAN: If you said "Yes and No." to that question perhaps we might get on. Would that satisfy you Mr. Irvine?

Mr. IRVINE: I do not want the Professor to say anything he does not want to say, but would you state as an economist—an orthodox economist—your explanation of the term "consumption".

The WITNESS: It is a very varied situation. No economist so far as I know would use a term that has not been defined, or that is not used in a context, which context settles the particular condition. Now if you mean that I have taken something off the market for the time being and that that is consumption, well and good; but I can put it back on the market that is what I am insisting on.

Q. I am not coming to the putting back yet, I will come there in a minute; but you have not given me a definition of consumption yet, or I do not recall it at the moment.—A. I say if you ask for a single definition as applying to everything I cannot give it and I would be deceiving you if I did.

Q. Then would I be right in saying that if a man is producing potatoes for a living and every year he produces a number of bushels more than he can consume, and he wants to save up enough to keep him in his old age, his only hope is to sell those potatoes before they rot.—A. Quite so.

Q. And receive tickets or cheques from the people who eat them, that he has produced so many potatoes. In other words it gives him a right to claim from society when he sells them the price value of his cheque for potatoes.—A. That is not a correct way of putting it, to my mind. When a man produces four hundred bushels of potatoes, and he wants to sell 300 or 350 bushels of them, he goes to the market and sells them, and that is the last interest he takes in them. He gets his cheque and deposits it. The buyer of the potatoes puts them in a warehouse, and in ten days perhaps the warehouse is burned, or he

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puts them on a vessel and the vessel sinks, or he takes them to a market and they are bought up and eaten. All these are ways of disposing of those potatoes but they do not interest the first man because he has got his cheque in the bank for his 350 bushels of potatoes.

Q. While I agree with the circumlocution of your argument, I do not think you have denied my point, Professor, that in the last analysis that is exactly what happens.—A. No, I could not admit it because I think it would be deceiving people as to the real circumstances and I do not want to contribute to that.

Q. How does a man save then. I would like an answer to that because I think it is important. How can a man save anything?—A. He saves the credit which he gets with his potatoes; he puts that in the bank and if the potatoes are lost by fire or anything, someone else loses but he does not; he still has the saving of the 350 bushels.

Q. I agree with that. Of course he does not lose the potatoes because the potatoes were not lost while he had the care of them?—A. No, he does not worry about them.

Q. He delivered them to society?—A. No, he did not. He delivered them to some individual.

Q. Very well, he delivered them to some individual in society and that individual gave him a cheque in return, for which he can draw from other individuals in society what he wants later or at the moment.—A. Well as I say, I must be definite. He cannot draw from society at large. If you trace what becomes of that cheque you will find that he draws it for specific purposes and never one cheque against society at large or in favour of it.

Q. No, I am not saying he is drawing against society at large but I will ask about society at large in a minute or two; this trail will be followed later from your answer to my previous question. I think you made some remarks about the exchange rates in reference to gold that it automatically registered exchange values. I do not know whether you referred to commodities or an exchange between nations?—A. To both.

Q. What really determines the rate of exchange between Canada and the United States for instance?—A. Like very many other things. There are so many million people in Canada and so many million in the United States; the vast majority of those millions know nothing about the terms of exchange and do not require to know. That comes down to the particular dealers in exchange, and they find that if they offer a bill on the New York market it will bring what is the rate of exchange for that day, and if you look at the commercial papers you will see how that varies from day to day, and that is what determines it. If, as has been very properly said, you are on a gold basis internationally, the price will be determined by whether it pays better to buy that exchange or to send and get the gold. It is supply and demand of course, but that is the relation it has between the paper and the gold.

Q. I understand from your answer then that there is a board of individuals, an exchange board or whatever you may call them?—A. A market.

Q. Which fixes the exchange between one country and another?—A. That is the market, yes. A limited market. I mean limited to individuals.

Q. Have you studied the rise and fall of the exchanges between the United States and Canada for the last four or five years?—A. Yes.

Q. Have you related them to the amount of gold in the various countries at the time the exchange rose or fell?—A. Not particularly, no; but it so happened that it did not matter very much at that time; it was simply and solely a market for exchange. The gold did not enter in and so the prices were regulated according to that.

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Q. Then gold does not enter into exchange?—A. Not at present. When I say "Not at present," I mean that if anybody is anxious for gold he can get it by paying the premium.

Q. At the present time it would not be an automatic register of exchange values?—A. No.

Q. Therefore there would be some limit to your definition?—A. I gave you the limit. I say gold is the ultimate basis of exchange and absolutely workable under any normal condition, but utterly breaks down when a great crisis comes along.

Q. I think you said it was a matter of experience how much gold was required to redeem notes?—A. Yes.

Q. What has been the experience when gold was really required?—A. That you can easily get from taking the statistics of the gold supply, because the Dominion Government since 1871 has virtually kept our gold supply, and so when the banks want gold they simply turn in Dominion notes and get it, so that the variation of the gold reserve in the vaults at Ottawa will give you that variation.

Q. I think you misunderstood my question, Professor. I was referring rather to this, that when there is danger of the people losing their money, or when they begin to lose their confidence, in time of crisis, or when they think there is a crisis,—maybe there is not one,—but if they think there is, they immediately rush to the bank to get gold, so that when the gold is in greatest demand it is of least value, is that not so?—A. No, the gold does not vary in value.

Q. It is of least use then in the function which it is supposed to perform; that is, it is of least use as the basis of credit in the country on the ratio which you demand for it. That is, when we do not demand it we may get it, but if we do demand it we cannot get it?—A. No, do not say that. It functions most when there is most demand.

Q. For gold?—A. Yes, and least when there is least demand.

Q. In that case why does it fail in crises?—A. Simply because the whole object of it is to maintain a balance between what are normally equivalent masses. I have used the illustration, if you have two vast tanks, as big as this room for instance, each of them, and you have water pouring in to them somewhat variously and a very small opening between the two, the water will be kept at a level in those two tanks; but if you have a deluge coming into one of them, that function cannot be performed by that small opening.

Q. I quite understand that and I think it proves the point of my question. All that I am saying is what you say in another way, that in a crisis anything may happen, and gold does not function as a basis?—A. No.

The CHAIRMAN: Why can you not leave that, Mr. Irvine? It is a matter of common knowledge and it is a matter for argument.

The WITNESS: You will admit there was a crisis in 1907?

By Mr. Irvine:

Q. I presume perhaps there was.—A. The gold met that absolutely.

Q. Money cannot function I think you said, as capital?—A. As money, no.

Q. Money cannot function as capital. Now supposing a railroad company were to borrow \$100,000,000 from the Canadian Government to build a new road. What would that money be?—A. If it borrowed \$100,000,000 in Dominion notes to build a railroad, it would simply be a medium of exchange. They would immediately use it as a medium of exchange, to pay the navvies who built the roadbed, the people furnishing iron and other materials, building bridges and so on. That is, it would be paid out in exchange for those things.

Mr. RINFRET: What you mean is that we use capital for money?

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The WITNESS: I do not say that.

By Mr. Irvine:

Q. As a matter of fact, the Canadian Northern or the C. P. R., in their rolling stock, on their line, etc., would represent capital?—A. Yes.

Q. Prior to that it was represented in money?—A. The money is a medium of exchange, to be converted into that, but the money will not transfer a train, will not make a filling, will not do anything. It would simply transfer the property from one to another.

Q. I quite agree with your distinction. Its chief function and sole function is the means of exchange?—A. Yes.

Q. You deny that money is a commodity?—A. Yes.

Q. Would you deny that it is being used in the banks at the present time in the capacity of a commodity?—A. I never heard of it.

Mr. HUGHES: What is the question?

By Mr. Irvine:

Q. I was asking the Professor if he would deny that money is being used by the financial system in the capacity of a commodity, and he says he never heard of it. Consequently, I do not need to ask him any more about that, because he cannot tell me what he has never heard of. I think his definition of credit was that the substance of economic credit is ability to meet a pecuniary obligation in a certain time. Is that about it?—A. That is about it.

Q. Further you said in connection with that that the public has nothing to do with credits?—A. I mean the general vague public.

Q. I want to ask you a question or two about that. Let me give a case: supposing one merchant in one town, with a population of 3,000, and supposing a merchant in another town with a population of 6,000, which merchant in your opinion would have the greater credit?—A. The greater credit? I should want to know about his business.

Q. I am referring back now to your definition of credit, which is confidence as to the ability of an individual to produce money at a certain time and place?—A. I said to meet a pecuniary obligation.

Q. Anyway, which of these two men, assuming that they are of equal business ability and serving the communities, in your opinion, would be more able to meet a pecuniary obligation; the man who made a turnover to 6,000 people, or the man who made a turnover to 3,000 people?—A. There again I could not possibly tell you in advance. I have seen towns of 6,000 people where a man's turnover would be an uncertain thing, unless he did it on a cash basis. I have seen, in mining towns in British Columbia,—they had a very large number of people there, and anybody that trusted the people in that town with goods would have been down and out. Take cities like Pasadena, in California, you could dispose of credit and all kinds of things there because it is a city made up of millionaires, and number of population does not determine the matter.

By the Chairman:

Q. Supposing in one town they had permission to sell liquor, and in one town everybody drank and in the other town nobody took it at all. There would be no comparison. There is another way to put that question.

By Mr. Irvine:

Q. In order to get to the vague public, I want to assume that these respective merchants are the sole distributors to those people of what they must have?—A. Yes.

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Q. Now I agree there are other elements that enter in. One might be a squandering fool and he might be one of the 6,000 population. I was assuming that their business is in a relatively sound position. Would not the man making the turnover to 6,000 people have a greater credit than the man who turns over to 3,000 people?—A. Of course the man who is making the turnover to the 6,000 people with as good credit as the 3,000 people would be making more money, but they are all definite people. They are not the vague public.

Q. The number of people would make an alteration to the credit but the vague public would not?—A. If they have the purchasing power.

Mr. IRVINE: I want to come at another angle.

The CHAIRMAN: I will help you along, by looking at the clock.

Mr. WOODSWORTH: Are we going to have a chance of questioning the witness on the banking system some other time?

Mr. IRVINE: I am sure I am asking very important questions.

The CHAIRMAN: Go ahead Mr. Irvine. Try and get through quickly.

Mr. IRVINE: I will be as quick as I can now.

Q. Would you agree that the number of producing agencies in Canada or any other country, if they will stay with Canada, working together as they must do, in our socialized industrial system create something which belongs to any one of them.

The WITNESS: I will apologize to the Chairman and the Committee for apparently not answering yes or no to a number of these questions, because if I answered yes or no I would be deceiving everybody.

The CHAIRMAN: Go ahead and answer in your own way.—A. I say I find myself having to say yes or no to many of those. It is a question of the atmosphere, the combination, the question as to whether these people produce something that is not theirs? Is that the question.

By Mr. Irvine:

Q. Whether they together produce something that belongs to no one of them. I will illustrate what I mean. Maybe it will save time. Here is a farmer producing wheat. Let us assume he is in a country without any railroads, which is not an impossible thing to imagine.—A. That is all right.

Q. Now suppose there is no such thing as coal mines, and he is a long long way from any manufacturer, his credit in a bank would not be nearly as good as the farmer who lives adjacent to a railway system, who can bring in manufactured goods, to use as implements of production. Now, the point is that when you get the farmer and the manufacturer and the railway working together, each gives to the other something which the other really does not produce himself and increases his credit, if you like. That is a public increase of credit.—A. No.

Q. Well give me a better name. What I say is this: that a man producing in the neighbourhood of a large number of people, who have wants and who are able to pay him, and give him something in exchange, has a great advantage over the same man producing in a smaller community.—A. But it is not a question of numbers. It is not a question of adjustment. It is a question of relation of production to consumption, to the market he finds. That market is the definite combination of the people who want to buy. Let me give you an illustration. I go down the street and I see a candy shop, a confectionery shop, and I see fifteen youngsters peering in with ardent desire to have everything. But they do not raise the value on the confection in that window, because they have no purchasing power. They have the desire but nothing

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else and therefore that does not operate, except from the viewpoint of the purchasers who go in there with something to exchange. You cannot put it on numbers. You cannot put it on communities. You put it on the number of people who go to buy, and therefore if there are more buyers he has the better chance.

Q. In this last question the kind and numbers did not really come in. There was rather the matter of organization and facility, etc., in the industrial world.—A. Yes. That is all again contributed by individuals.

Mr. IRVINE: In other words combinations.

By the Chairman:

Q. You do not believe in a lot of Mr. Irvine's terminology like "social credits"?—A. I say it is either metaphor or it does not go back to the originals.

By Mr. Irvine:

Q. Is there anything social?—A. As a metaphor, yes.

Q. As a metaphor there is social credits?—A. By saying social credit you mean that if you have four or five hundred or six hundred people, varying according to their credit, you can slump that for general purposes, by saying "social." I will admit that but I do maintain still that there is no such a thing as "social" that will give any definite value to anything.

The CHAIRMAN: It is like saying that Canada sold wheat.

The WITNESS: Yes.

The CHAIRMAN: We do not sell it.

By Mr. Irvine:

Q. The other depends on something more important than even numbers. Two men working together might produce as much as three men working separately. It varies through co-operation. Let us use another form; through co-operation, production has been increased, so when you get industrial institutions in co-operation like that, coal mines, railways, in any industrial distributing centre, farmers, working together as a unit, could produce more than any one of them could possibly produce separately?—A. Absolutely.

Q. And that is something social which was increased by the relationships.—A. I understood you to say if ten men were working together, because they could produce more than ten times as much as ten individuals, that there was something produced there over and above what those ten men produced. That is what I deny. If you have ten individuals—the ten men brought together may do it and they do it for one another, and the total product comes to that, and it is a question of bargaining as to how they are going to divide it up.

Q. Would you permit me to say that ten individuals working as individuals will do less than ten individuals working together as a social unit?—A. Yes.

Q. And the society is a social unit in that sense?—A. No, not in that sense.

Q. We shall have to debate now, so I am not going any further on that question. I think you said that Mr. Bevington's scheme does not contemplate a redemption. May I ask you to state on what grounds you arrive at that conclusion?—A. When you say redemption, I say it does not contemplate,—if it is going to discharge the functions which he expected it to do—it does not contemplate a definite and continuous redemption. If I had time to go through the steps by which he arrives at the use of it, I could demonstrate that, but he uses so many loose terms in going from one to the other, that they do not follow, and I cannot therefore give you any definite rebuttal of a vague statement, you see. I am quite willing to take it up individually, and discuss it with you per-

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sonally, through the various phases, and show where the thing breaks down; when you arrive at the end, you do not have any end.

Q. Would it not be better for you to say that the proposition of Mr. Bevington's is so vague that you cannot offer any objection to it, and having offered an objection to it, I would presume there was something so vague that you could not understand it?—A. Yes, you can put it any way you like. I have stated my willingness to discuss it.

Q. I would be willing to do that with you, Professor, some other time. Are you aware that Mr. Bevington's scheme is not a new scheme at all, that it contemplates using exactly the same scheme as we have now, in every way, except decentralization?—A. I think we are only wasting time.

Q. The point is that if Mr. Bevington's scheme is not contemplating redemption, then neither is the present scheme contemplating redemption, because as I understood Mr. Bevington's scheme, it is exactly the same as we have now?—A. I interpret it to mean that, inasmuch as for the time being we are not on a gold basis, but on a basis of fiat money, Mr. Bevington, as I understand it, simply wishes to continue that system, and that it is quite sufficient to go on without the gold basis.

Q. Mr. Bevington established his whole principle on the gold basis, if you notice this chart.—A. The way in which he treated it was to imply a force on that which does not exist; but as I say, I do not think it is worth our while discussing this thing and taking up the time of the Committee, when we have not analyzed the definitions, and the stages by which he arrives at them.

The CHAIRMAN: I was thinking of inviting Mr. Irvine and Dr. Shortt back here Sunday afternoon.

By Mr. Irvine:

Q. The point is, that the Professor made a criticism of the system and now he wishes not to make it. That is satisfactory to me.

By Mr. Hughes:

Q. Would you say that Mr. Bevington's scheme is comparatively sound, as compared with Major Douglas'?—A. Oh, yes.

By the Chairman:

Q. What do you think of Major Douglas' scheme? Let us have that while you are here.

MR. IRVINE: If he makes a statement now and I have not got time to question him about it, I would request that he would come back tomorrow morning.

The WITNESS: Of course, I think the scheme is absurd, but there again I wish to do justice to Major Douglas, to take his definitions and trace the building up of these, and show where it goes wrong. I am familiar with that kind of condition which we had, very much the same as Mr. Bevington's scheme, in 1879 and 1880, when we had what is known as the rag-baby scheme, which you can get in the Hansard of that time if you care to look at it.

By the Chairman:

Q. What was that?—A. It was to use the Dominion credit in financing production and consumption and that sort of thing, in much the same way as, for instance, the Dominion issue was employed to hand out ten million dollars issue to the Grand Trunk and fifteen to the Canadian Northern and so on. Mr. Wallace was the leader of it. At that time it was a very conservative party—nearly all the members were conservatives, who came in with Sir John Mac-

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donald in 1878—and finding that conditions had not improved very much, he wished to go further. You will get all the scheme, which was to use the Dominion credit in financing the industries of the country.

Q. The theory is to make money by legislation, and you say that cannot be done? Do you agree to that?—A. Not exactly, because I do say it is possible to utilize the Dominion credit or the Provincial credit or the Municipal credit for various purposes. I say the proof of the pudding is the eating of it. We have had any amount of proof of it in Canada all over.

By Mr. Mitchell:

Q. There were a great many advances made in 1879 and 1880?—A. Not in 1879 and 1880. That was earlier.

Q. What was the result?—A. The result was that practically all of the loans made are part of the national debt to-day, that those who did not get the loans demanded they should be supplemented by having the amounts put to their credit, to equalize those who got the most, and finally those who never got anything demanded they should get the equivalent.

By Mr. Woodsworth:

Q. Dr. Shortt has given us a general review of the development of bank clearings, the bank note issue, long term credit. The bankers have told us that it is not good banking. They have told us that it is not good banking to issue very short term credits. They find themselves under the necessity of charging 10 per cent for a few weeks or a few months credit and they think it is much to their advantage to issue long term credit. My point is that they have the monopoly of the deposits of the people under certain circumstances. Why should not they give accommodation to the people even though it extends for a long time?—A. It follows from what you said about the extension of credit and all that that only a moderate proportion is redeemed or comes back for redemption, deposit, and so on. Therefore there is a small portion which the bank can issue on long period loans, but it is very small, and here is the great danger. It is not necessarily that they shall have to meet them all but when they have loaned out a considerable part of their credit on these long term loans they cannot call them in again. The consequence is that the amount to be called in is on the shorter loans. Those are usually issued to merchants for manufacturing purposes and so on. If you concentrate on demands for returns from those people you are going to paralyze or cripple their industry, and consequently the net result is that the long term loans are bad for the bank and bad for the people.

Q. But if they had not such a large amount in their own bank premises, for example, which are not readily convertible to liquid assets, I presume they might issue larger amounts to farmers, for example?—A. That assumes they are issuing on their bank capital. I think I can show you from statistics that their bank capital is almost inviolable, because, roughly speaking, the bank capital barely takes care of the permanent securities, the buildings that they have, and the real banking of the country is carried on on the deposits coming out of the savings and the loans. That is perfectly safe banking, because when a bank issues a loan on the security of wheat going forward or anything of that sort and takes a sufficient margin on that, it is facilitating the business of the country, that is, of exchange, on a solid basis, and so the banks' accommodation will expand and contract in proportion to that business. That is the main function of the bank. It is distributed in various ways under section 88, but that is the essence of it.

[Prof. Adam Shortt.]

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By Mr. Shaw:

Q. Dr. Shortt, I take it you agree with Professor Fisher that we should eliminate the periods of inflation and deflation if we can do it?—A. If we can do it.

Q. You say that Professor Fisher's scheme is not satisfactory for that purpose, in the stabilizing of the dollar. Have you any scheme which you can suggest to this Committee as a means to this desirable end?—A. My scheme is simply to take the present arrangement and make it more perfect.

Q. Make it more which?—A. More perfect. The present system is all right as a system but as has often been said, it is defective sometimes in its working. You cannot prevent apparently nearly all the people from being carried away by a boom. You know the west and you know what happened there and you know how the banks were carried away as well as other people. So if it had been a question of a perfectly wise banking system alone, run by experts, there would not have been nearly so much boom out there because the banks would not have advanced the credit in the reckless way in which they did.

Q. Do you suggest that the banks have anything to do with inflation?—A. Not by taking the initiative but by being too easy.

Q. Following in the wake of some of the inflators?—A. Following in the wake of some of the inflators. It is very true the banks do not go out and press their money on anybody, but they are there for the application, and therefore extension and contraction depend on the applications which come to them for security and so on. A perfectly wise banking system would be one in which the chief managers were sufficiently foresighted and farsighted and thoroughly acquainted with their business so that they could curtail it, that is to put a damper on it.

Q. That is exactly what Professor Fisher was coming at, in the general treasury.—A. That is what has been asked here time and again, what the Federal Reserve Board would not do, and so on.

Q. You take it that in order to prevent the expansion and accompanying deflation we should have control of the people who control the system. The fault lies with the Government?—A. Yes.

Q. There is no suggestion you can make that would improve the system?—A. No. There is only one feature I would add to that, and that is, I think the feature we are speaking of can be greatly improved by extending the powers of the Bankers Association. If you notice, in successive acts the powers of the Bankers Association to step in and do this, that, and the other is increasing. That would enable the disciplinary process to operate here and would be far better than any superimposed scheme of a Federal Reserve Board or anything of that sort.

The CHAIRMAN: Everybody is silent so long that I assume there are no further questions to ask.

Mr. IRVINE: I asked the right to retain Major Douglas with a view to recalling him for a minute or two if necessary. I presume we want to get rid of him as quickly as possible and I would like to recall him in the morning for a few minutes.

The CHAIRMAN: I must have the support of the Committee in that.

Mr. IRVINE: I will not take him over any new ground and I will not ask him to repeat anything, but simply to substantiate some points.

Mr. MITCHELL: What is the object of recalling him?

Mr. IRVINE: What is the object of recalling any witness?

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Mr. MITCHELL: I do not think that is a fair statement from Mr. Irvine. We have heard Mr. Douglas. We have examined and re-examined him and if we are going to keep on calling witnesses day after day here we will never get through with this Committee.

The CHAIRMAN: That is a fair question, I think, Mr. Irvine. Say what you want.

Mr. IRVINE: Major Douglas has been trying to put up a certain case, for instance. That case has been dealt with very largely and criticized, by others who followed him, sometimes criticized unfairly and misrepresented. I want to re-establish the point where misrepresentation has come in, to show where it has not been properly made.

The CHAIRMAN: His scheme is before us pretty clearly. It is for us to decide whether it is sound.

Mr. IRVINE: You can decide whether you will permit me to have him or not.

The CHAIRMAN: I am not limiting you in as far as it is fair and possible to do so. I want the Committee to agree upon this. It is quite clear that we cannot have witnesses making statements and then have them come back again to explain away some criticism that has been made about them. We would never finish. That is not the way in which public inquiries are carried on. If you say you wish to ask a few questions and would take five minutes, or just limit the time, I think the Committee would try to accommodate you largely by reason of the fact that Major Douglas has come a long way.

Mr. IRVINE: I would not like to limit it to five minutes. It might take fifty minutes.

The CHAIRMAN: You cannot get fifty minutes very well.

Mr. SPENCER: According to the Minutes, it was understood when he left the other night that he could be called back for a short time.

Mr. MITCHELL: It was clearly understood that it would not be fair to rebut other witnesses and it would not be for the purposes of bringing anything new in. I do not know yet what the intention is, because as I said a moment ago, Mr. Chairman, if we are going to allow one man to be called back and rebut what another witness says, we will go on indefinitely, and we will have to call Professor Fisher back and Professor Shortt, to rebut what Major Douglas says now.

Mr. SHAW: Surely this Committee has not developed into a court of law. What I am trying to get is information and I do not care from what source it comes.

Mr. MITCHELL: I agree with Mr. Shaw, so far as that is concerned. But we have had Major Douglas; we listened to him for two days. His case was made out completely. I think everybody who heard it has come to a conclusion one way or another on it, and unless there is something definite that Mr. Irvine wants to prove by this witness, I do not believe it is proper procedure to recall him.

The CHAIRMAN: Major Douglas was asked to make a statement here. He came here and made it, and it is not proper to ask a man to come back and make another statement. Can you not promise to dispose of the thing in ten minutes?

Mr. IRVINE: I understood when Major Douglas finished his statement that I would be permitted to recall him, and for that reason he is here. But I am not going to press that at all.

The CHAIRMAN: I believe I made that statement, but there was a condition attached to it.

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Mr. IRVINE: I am not going to ask anything from my witnesses other than have been permitted to other witnesses. I thought it had been done in investigation of this kind in numerous cases.

The CHAIRMAN: Will you tell me generally what you want to recall him for? He made an exhaustive statement, and I assume he cannot add anything to his statement. I can understand your wish to have him back here to make a few statements, explanatory of something that he had made before, and perhaps which were misunderstood by somebody. If you could confine it to that examination, we probably could arrange it.

Mr. GOOD: May I make a suggestion, which I think perhaps will offer a way out. Major Douglas has come a long way. He has presented to us a very startling proposition. It is not unlikely that a good many of us have misunderstood certain aspects of that proposition, and I would suggest he be allowed a certain definite time to clear up any of the points which he thinks have been misunderstood, if that is the case. Do not ask any questions. Just invite him to clear up anything that might be indefinite. He has the record. He can see what has been said about his case and we can give him ten or fifteen minutes to clear up any point on which he thinks he has been misunderstood.

The CHAIRMAN: You have expressed my views on that concisely.

Mr. IRVINE: That will satisfy me, Mr. Chairman.

The CHAIRMAN: I will be the judge of the time.

The Committee adjourned until 11 o'clock a.m., Thursday, May 3, 1923.

THURSDAY, May 3, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Any notices of motion?

Mr. IRVINE: I have one. (Motion read and filed).

The CHAIRMAN: We will now hear from Mr. Douglas.

Mr. COOTE: Before Mr. Douglas gives evidence is it possible to say about how often the Committee is to meet while the House is in session? There are a great many complaints by members.

The CHAIRMAN: Bring it up at five minutes to one.

Mr. Coote: You would rather leave it till the last? So many of our members run out at five minutes to one.

The CHAIRMAN: Bring it up then or this afternoon.

Major HUGH DOUGLAS, recalled.

The CHAIRMAN: I understand, Major Douglas, that there are some general statements you wish to make within a limitation of time; proceed.

WITNESS: Mr. Chairman and gentlemen, you must have noticed I think in going over the evidence, which I have read myself since I came to Ottawa, both of myself and other people, that there is a wide divergence of viewpoint involved. I just want to emphasize what I might say is our viewpoint, and I have no doubt you will be able to extract the other viewpoint for yourselves from the evidence. We say it would be regrettable and an undesirable thing if an individual having sufficient money could not get delivery of goods; but we have no record of any such situation existing for any length of time. But we

[Major Douglas.]

consider it to be an insane and unintelligible thing that if the goods exist and people are willing to make more, that the majority of people have not got the money to buy them. I am putting that point of view forward as my own point of view, as the point of view of those people who may happen to agree with me. You have in this evidence from all sides heard a good deal about inflation and deflation, and something I think in one case, and very interesting indeed, was about variable yard sticks, and so forth. All of this is very important, but it is not exactly what perhaps we wish to impress on you as being of the first immediate importance, by which I mean that if you wish to tackle this problem with a view to getting it straightened out, it is not exactly from that particular angle that you have got, as we see it, to tackle it. We say under the present financial system, wages, salaries and dividends distributed over say a period of one year are not available in the hands of the buying public to buy the production of that year; they have in a considerable measure returned to the credit system from which they emerged during that year, and they are not available to buy the production of that year. I would like those who are specifically interested in that problem to consider that statement very carefully in exactly the words in which it is made in the written report, of the evidence, because at any rate we consider it to be of great importance, if not of fundamental importance. There is available a rigid but also rather an abstruse mathematical demonstration of this statement, but I want to read to you an inductive proof of it derived from figures on this continent which has been sent to me by one of the groups who are associated with me in the United States, because the figures will be very much more germane of particular problems. This report says:—

“The retail trades will soon again face the ‘consumers’ strike.’ At the height of a recurrent cycle their costs are rising. They are the payers on the accumulated costs of production, and when the consumer will not or cannot buy, they will be the prime sufferers.

“Now the buying power of the population per head has shrunk, and as prices outdistance wages on the upward spiral of the present ‘boom’ it will shrink again; and this at a time of increased facilities and increased actual production. A glance at the record since 1900, during alternate booms and deflations, tells the tale.”

I would like you to notice that that covers a period which takes in a number of alternate booms and deflation, so that the question of inflation and deflation is cancelled out to some extent.

“The Harvard economic researchers report 83 per cent increase in annual physical production of goods from 1900 to 1917, while the population increased only 34 per cent; that is, an increase of more than one-third of goods per capita up to 1917, while the annual increase to 1920 during the twenty-year period was at least 30 per cent. To absorb this increased volume of goods the buying power of the masses should have increased commensurately.

“But instead of increasing, their buying power shrank appreciably during this period. Basil M. Manly, formerly Director of Research and Investigation, U.S. Commission of Industrial Relations, estimates the purchasing power of wages in the manufacturing industries during 1919 (in terms of the dollar's purchasing power in 1889) at \$420 per employee as compared with \$426 in 1889. That is, while the actual average earnings per employee in 1919 had risen to \$1,159, they would not buy as much of the necessities of life, as compared from census reports—of food, rent, fuel, clothing and transportation—as \$426 would buy in 1889. The wage needed to support a family of average size on a minimum com-

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fort level was fixed by the Philadelphia Bureau of Municipal Research at \$1,992; only \$160 more than the amount fixed by the National Industrial Conference Board, a manufacturers' organization, as the minimum necessary for a wage-earner's family in Lawrence, Mass. It is \$600 below the health-and-comfort budget of the United States Bureau of Labour Statistics. With average earnings of but \$1,159 in 1919, the consumers of the country were even then unable to meet their real needs or to absorb the country's actual increases in production.

"This was at the end of the war, when nominal wages were at their peak. During the past ten years factory workers have been underpaid, taking the wage of 1899 as a basis in computing purchasing power of the dollar, by amounts ranging as high as \$440 millions a year, and the aggregate underpayment of employees for the twenty years amounts to more than 3.5 billions, while production was actually increasing by one-third. Yet the actual production was small compared with the capacity production during that period.

"The relative buying power of union wages, based on relative rate of wages per week, full time, and upon the changed buying power of the dollar, shrank from 100 in 1907 to 94 in 1921. Mr. Manly remarks: 'The apparent rise in 1921, caused by the sharp decline in the cost of living, is all an illusion. With the decline in prices came unemployment, and the man out of a job has little interest in the purchasing power of wages which he has no opportunity to earn.' That is, the families of the millions of men out of jobs or on strike were lucky to share the diminished real wages of those still at work.....

"Mr. Manly cites confirmation of his conclusions from leading statistical authorities, including the United States Census Bureau and the Bureau of Labour Statistics, the Pennsylvania Old Age Pension Commission, a study of 'The Movement of Real Wages, 1890-1918,' by Dr. Paul H. Douglas and Frances Leamberson, bringing down to that date the elaborate statistics compiled by Dr. I. M. Rubinow in December, 1914; the report of the Interchurch Movement on the Steel Strike of 1919; the estimates of the Philadelphia Bureau of Municipal Research, the National Industrial Conference Board, and the Harvard Bureau of Economic Research. None of these reckonings take account of the millions of workers on part time or completely unemployed.

"The intent of this memorandum is in no way to plead the inequity of this situation to the mass of consumers, organized and unorganized. It merely presents the view of the retail merchant with an eye single to consumer purchasing power. In a period of rising prices he must again reckon with a public unable to buy the volume of goods produced for sale, and that has never in our history been able to sustain any period of capacity production.

"While actual production has increased by one-third annually as compared with 1900, the average customer can buy less goods than he then consumed. Moreover, the export trade of the country has been cut in two. The great strikes of 1922, during which 1,200,000 men were idle, and a revolutionary tariff further endangering the export trade have made the situation yet more ominous. The business page of the New York Times recently commented: 'The only one certainty about them (the strikes and the tariff) is that they will result in the raising of prices of practically every commodity.'

"Now, if the domestic market declines to take the production of the past year, let loose by lowered money rates which have inflated

[Major Douglas.]

costs, the foreign market is less able to take it. Our foreign trade declined during 1921 by about 2 billions, and for the past year the surpluses of our nation have been vainly competing with the surpluses of Great Britain, France and Germany in an international market not half able to absorb them. If destroyed by non-use, and by the tremendous agencies of sabotage, wielded by every force of capital and labour, then the cost of these surpluses will infallibly be saddled upon the retail price of such goods as the American population must have for its support. If not used, the factories that produce them must be shut down or put on part time, reducing wages and throwing more consumers out of employment.

"Relief can come in one of two ways: by war, which is only organized sabotage of surplus and potential production, but which does bestow added purchasing power upon workmen consumers by mortgaging the future; or, *by capitalizing the surplus production in terms of the real needs of the people, and in terms of added buying power to raise the standard of living.*"

That, gentlemen, I put forward to point out to you from actual facts and not from theories, that the buying power in the hands of the consumer is not sufficient to buy the product, and that, as we say, is the cause of the whole situation, and that is the situation you have to meet.

The only other thing I have to add to that statement is that I noticed in reading through the report of my evidence that I did not answer one of Sir Henry Drayton's questions at the end of one of the examinations, and I think the answer to that question is perhaps a little illuminating in regard to other points that were raised. Sir Henry Drayton said: "I was wondering if the Major could not give us a concrete illustration, I think he should before he goes, as to how exactly his ratio between production and consumption works out, particularly having regard to the fact that he complicates the question of production by imported articles?"

I think if you will take that instance that I gave you of the motor car which you had a discount of \$500 on, you will see what is meant. The discount of \$500 on a motor car on which the costs were \$2,000, is based on the assumption that the estimate of actual concrete and possible potential production over a given period, bears the ratio to actual consumption of 20 to 15. That is to say, that you could have or did, just as you like to put it, for your own purposes, produce over a given period \$2,000 worth of stuff and through the processes of consumption and depreciation and all sorts of things of that sort you used up only \$1,500. Now, the question is what did that \$500 represent? It represents chiefly capital production during that period, and the discount which you have given off the price of a motor car enables the community to get it to invest, to exchange their dollars retained in this way for bonds which represent a holding in the capital of the country, and that is the way in which you get a general community control on the real capital of the country, which is the plant and so forth; and that is the way in which by the interest on that capital you can provide a purchasing power for the people who as the progress of science marches on will inevitably be displaced from the ordinary economic processes of production. The whole trend of progress is to displace labour, and you have got to find some method by which these people are provided with purchasing power without going through the process of production; and that is the suggestion which is made in that relation. That is all I have to say.

The CHAIRMAN: Our next witness this morning is Mr. G. T. Clarkson, of Toronto, a member of a firm of accountants and auditors. I assume that Mr. Clarkson's evidence will have particular reference to sections in the Bill regarding audit, the appropriations and contingent fund sections, of section 54, and

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section 56 which deals with appointments and duties of auditors. I refer to these sections merely to direct the attention of members of the Committee to these sections, hoping that we will confine as far as is possible the statements of this witness to these sections. He will be followed by Mr. Edwards, another auditor, I think. I do not think he is attached to the Department of Finance, but I think the Department of Finance have been in consultation with him in respect to some of these clauses. He will follow Mr. Clarkson. I should hope that after we have heard these two witnesses we will be in a position to dispose of some of these clauses. Mr. Clarkson, will you please come forward?

G. T. CLARKSON called and examined.

By the Chairman:

Q. You are a member of what firm?—A. Clarkson, Gordon & Dilworth, of Toronto. And also of E. R. C. Clarkson & Sons. The former is an accounting firm. The second is a liquidating firm.

Q. Have you had experience in bank auditing?—A. Yes, sir.

Q. Have you had any experience in the winding up of banks?—A. Yes. I have been an auditor of banks starting two years prior to the last revision of the Banking Act, that is 12 years ago. I have been the auditor of five banks, and presently I am the auditor of four banks. I have wound up the Sovereign Bank; the Farmers' Bank, and a bank in process of formation called the Monarch Bank.

Q. You did that as liquidator?—A. Yes.

The CHAIRMAN: Now, gentlemen, the witness is in your hands. I just wished to ask these preliminary questions.

By Mr. Hanson:

Q. Mr. Clarkson, you have read the proposed amendments to section 54. I call your attention to subsections (m) and (n) of section 2.—A. Yes.

Q. (m) Appropriation account. (n) Contingent reserves including undistributed profits. What is your opinion of the advisability of including these in the statement required to be laid before the annual meeting and before the Government?—A. I think that in order to stabilize the banking business so that abnormal profits in times of activity can be set aside to meet abnormal losses in times of depression that banks have got to have inside funds. My opinion is that the banks could be allowed to have an appropriation account, which could cover all known or estimated losses, and also an amount not to exceed five per cent of their loans so that in times of prosperity the banks could set aside the amounts which they will absolutely need to meet their losses in times of depression. If you do that, you will have a fund which is necessary to stabilize the banking business; at the same time you will limit the funds which the banks can have so that they cannot build up inordinate reserves. I would allow them to have an appropriation account to cover all known and estimated bad debts, an amount equal to five per cent of the loans, and provide that they shall deduct that amount from the value of their investments and loans as shown by their public statement. Then if they had any further reserves I would require them to show those as contingent reserves.

Why do you say five per cent?—A. I don't think five per cent of the loans of any bank is an exorbitant or excessive inside fund.

Q. That is your opinion?—A. That is my opinion yes sir.

By Mr. Good:

Q. The matter of the percentage would be more or less debateable, I suppose?—A. As long as you make it large enough. The difficulty is not in their

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having excessive inside funds; the difficulties in the past have arisen because they have had insufficient inside funds. At the same time, there is a feeling in the minds of a certain section of the public that some of the banks have got very large inside funds, and far in excess of what they should have. Now on the basis that I am outlining here you give the bank a reasonable reserve, and at the same time you provide that if they get over that fund, then the public knows that they have these additional funds. So that, answering your question, Mr. Hanson, it would be my idea that the words "appropriation account" should be struck out, and the words "continued reserve" put in their place, and then that (n) should be just "undistributed profits."

By Mr. Hanson:

Q. Would that meet the five per cent situation you speak of?—A. As long as you insert a provision in the Act defining what your appropriation account is. I have a definition here.

Q. Would you read it?—A. If you care to have me read it.

Q. Have you a written statement in regard to this that you would like to read?—A. I prepared a memorandum, yes sir. I do not know whether you want me to read it or not.

Q. Read it.

The CHAIRMAN: Mr. Hanson, please speak louder, I cannot hear you.

Mr. HANSON: I asked the witness to be good enough to read the statement which he says he has prepared on this point, or on any other point he may have.

Mr. LADNER: If I may be permitted to make a suggestion, I understand the witness has his ideas written out with respect to the changes proposed and that he can give a statement covering intelligently all these points. I suggest that he read his statement and then questions may be asked afterwards. We would make greater headway, because perhaps he will explain all the points that we might question him about in advance.

Mr. HANSON: That is better.

By the Chairman:

Q. Have you such a statement?—A. I have sir, yes.

Q. And it will consecutively cover the points?—A. It will consecutively cover them. The memorandum is not consecutive according to the sections in the Act, but it takes them up by sections and deals with them as they refer to the different subjects. I can deal with it on the basis of this memorandum according to sections.

Q. Do not read anything that does not appear necessary, but when you come to any section indicate what it is.—A. This is a memorandum with respect to the proposed amendments to the Bank Act.

The comments hereinafter set out with respect to the proposed amendments to the Bank Act relate to:—

(a) The responsibilities to be imposed upon directors, and the returns required to be made in respect of their attendance at meetings.

(b) The form in which the balance sheets of banks are to be prepared and in respect of additional items required to be included therein.

(c) The definition of the loans which may not be included in the balance sheet of a bank as "current loans"—in other words, the definition of "overdue debts".

(d) The provisions relating to the appointment of auditors.

Dealing with them in order. *Re* Directors and their responsibilities. Section 28, subsection 4, provides that a record shall be kept of the attendance at

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meetings of each director, and that a statement of such attendance shall be sent to shareholders of a bank with the notice calling the annual meeting.

The inference to be drawn from this section is that directors are negligent of their duties, and such an inference cannot fail to be resented by any person who shall become a director of a bank. There are many directors, also, who reside in localities distant from the head offices of banks, who seldom attend board meetings but who on the other hand, render services of far-reaching importance to the banks in the information and advice which they give them in respect of their interests in such localities. They also keep the banks in touch with the business conditions and needs of the provinces in which they reside, and this is of particular benefit, so far as the West is concerned. Were it not for their appointment, the Boards of nearly all banks would be composed of directors resident in the Eastern part of Canada only, when they would not be representative of the Dominion of Canada as a whole. If the services performed by such directors are now required to be explained to shareholders at each annual meeting, directors who value their self-respect will refuse to act and this may result in the banks losing their Western directors, when they would be placed at a great disadvantage. It is submitted that the section should be eliminated as one which is of no benefit but may do a great deal of harm. Now that is section 28 as to directors' liabilities.

Mr. Good: Mr. Chairman, may we consider these as we go along or shall we come back to them afterwards?

The CHAIRMAN: Personally I would think it better to ask questions now.

By Mr. Good:

Q. I was going to ask Mr. Clarkson as to what he thought they could accomplish from a distance, as to whether they could participate as effectively as if they attended the meetings?—A. Well, as a matter of practice, the directors residing apart from the head office deal very largely with the business in the locality in which they reside, and they are of far-reaching importance to the bank in that direction. There are many of these directors who attend Board meetings only once or twice a year, but they give more assistance to the banks than many directors who attend nearly every meeting.

By Hon. Mr. Fielding:

Q. Is there anything in the clause which prevents these gentlemen from being appointed?—A. No, sir; in the clause itself as it stands alone, I would not say that it is very objectionable, but it is the cumulative effect. It is difficult now for small banks to get directors.

Q. Do you think the directors would object to the truth being known, that they did not attend? Is there any reason why that should not be known to the shareholders?—A. No, no reason in the world, sir; excepting, it is only the feeling that they might have, that they are stultifying themselves.

Q. By telling the truth?—A. Not by telling the truth, no, sir.

Q. That is all this clause asks for, that the truth shall be known.—A. It is the putting such a statement in the notice sent to the shareholders.

By Mr. Good:

Q. Would the objectionable features of it be removed if it were required to state also the place of residence of the directors?—A. I think there would be no objection in the world if a record was placed before the shareholders' meeting, or even, if you like, read to the shareholders' meeting, telling the shareholders of the attendance of the various directors. It is the sending out of the notices saying they have attended such and such meetings.

[Mr. G. T. Clarkson.]

By Hon. Mr. Mewburn:

Q. Is it not a matter of practice that a large number of the banks which have their head offices in Eastern Canada, have members of the Board of Directors residing in the West, for instance in Winnipeg, and a large number of the banks have superintendents of those various sections, and they have, I understand,—you will correct me if I am wrong—weekly meetings of their local Boards there?—A. They have local Boards, yes.

Q. While these directors may not attend the formal directors meetings at the head office of the bank, yet they do as a matter of fact attend local Board meetings in the vicinity in which they reside, and they are frequently called in conference with the head office in an advisory capacity?—A. Some of the banks have these local Boards.

By Mr. Chaplin:

Q. That does not apply to all the banks?—A. No.

Hon. Mr. MEWBURN: They have directors who cannot attend at the head office, but they attend meetings almost weekly at points where they reside, with the superintendents and managers.

By Mr. Ladner:

Q. Would this be a good addition to be made, to add to the information contained in the notice to the shareholders, the place of meeting of the directors and the address of each director? Because that would indicate his distance from the place of meeting, and whether or not it would be feasible for him to be there?—A. I feel that the shareholders are entitled to know whether the directors are attending the meetings properly or not.

By Hon. Mr. Fielding:

Q. Is not that the sole object of that clause?—A. Well sir, then my suggestion would be that that be shown in a record at the head office, available to the shareholders at the annual meeting.

Q. Instead of being sent to the shareholders in the notice?—A. Yes.

Q. If they like to read it there, they can, but they must not get notice?—A. It is not a question of notice, but I can see that a good many people would feel it rather stultifying to take the position of a director under those circumstances.

By Mr. Shaw:

Q. As a matter of fact very few of the shareholders attend the annual meeting and very few would have an opportunity of attending at the head office to read the book you refer to?—A. It is hard to say how many attend; sometimes 20 to 40 people.

Q. I cannot see what your objection is, or in what way the directors stultify themselves. I should think it would be a matter of protection to them?—A. It is only the cumulative effect. There is no honour or glory in being a director of a small bank in Canada, and there is a constantly increasing number of people who are objecting to becoming directors, and it is becoming more difficult to get the people you want. Now anything you do to accentuate that is going to make it more difficult for the banks to get directors.

By the Chairman:

Q. You mean, a man may be a good director, and not attend frequently, but if these notices are sent out there is an implication which may be dangerous?—A. That is all I mean.

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By Hon. Mr. Fielding:

Q. Would you add anything to the clause to remove that objection, Mr. Clarkson? Or is your suggestion to strike it out?—A. To strike it out. Or if you want something like that simply have a record kept at the head office.

Q. But you do not want it to go to the individual shareholders with their notices?—A. No.

Hon. Mr. FIELDING: That is the point of difference; we think the shareholders should be entitled to know.

By Mr. Mitchell:

Q. Your suggestion is that it be read at the shareholders' meeting before they appoint their new directors?—A. There is no objection to that, or a record at the head office but I do not like the notices being sent.

By Hon. Mr. Fielding:

Q. Where is the distinction between giving the notice to the shareholder before he comes to the meeting, and reading the notice at the meeting?—A. I think the one is less objectionable, less likely to give offence.

Mr. SHAW: And less number of people will get the information.

By Mr. Ladner:

Q. Mr. Clarkson, the question I asked was, in the event that notice being sent to the shareholders; assume that to be so; in your opinion would it not be wise that that notice in addition to the things referred to in subsection 4, should also contain the information as to the place of meeting of the directors, and also the place of residence of each director so that the shareholders could see for themselves?—A. If you are going to send out a notice, I would make the bald statement and inform the shareholders if they want to know, where they reside. I would not fill up the notice.

By Hon. Mr. Fielding:

Q. Don't they know generally where each director resides?—A. Yes sir, they do.

Q. The list of directors states that does it not?—A. They know anyway sir.

By the Chairman:

Q. What do you mean by, they know anyway?—A. They know by looking at the board, the residence.

Q. Who do?—A. The shareholders.

Q. How many of them?—A. I should say the majority of them. I may be wrong but I should think so.

Q. You live in Toronto, and are thinking of the banks there and you know them so well that possibly you think everyone else knows them?—A. Possibly you are right.

By Mr. Spencer:

Q. The witness refers to small Canadian banks. I would like to ask him what he means by a small bank in Canada?—A. So far as directors are concerned?

Q. Yes.—A. I will reverse it and say that outside the larger half dozen of banks, there is very little attraction in being a director of other banks, and there is a constantly increasing number of people available as directors of these banks, who are unwilling or becoming unwilling to act.

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By Mr. Good:

Q. That would apply to all kinds of restrictions upon directors?—A. Well, I mean to say their position has lost its honour and glory, if you want to put it that way. The responsibility in the position is weighing fairly heavily upon their minds. That is why I say it is the cumulative effect of this section, is the only reason I touch it.

By Mr. Morin:

Q. What would you think of the effect of limiting this clause to the directors residing in the province where the bank has its head office?—A. Well, it would limit it. It does not entirely remove the objection I had. It is just the cumulative effect.

By Mr. Woodsworth:

Q. I do not understand what the witness means by the cumulative effect?—A. I mean the added responsibility put on directors, and then the notice to shareholders. It does not make the position of director of a bank more attractive, and as I say there is an increasing number of people who do not want to take the position of director and I feel that this section may be just another slight impediment.

By the Chairman:

Q. I think he means that if the notice to shareholders states the number of meetings a director has attended and if he has not in fact attended many, the implication in the mind of the shareholder will be that he is not a good director, and that the tendency will be for him to keep off?—A. Quite so.

By Mr. Hanson:

Q. Mr. Ladner has partly covered what I had in mind. I would like to ask Mr. Clarkson what he thinks of the suggestion that a record of attendance at local board meetings be kept and published or sent to the shareholders with this statement contemplated by subsection 4 of section 28.—A. I don't like sending the statement to shareholders. That is my point; but if you are going to send it, send it out locally as well as from the head office. If you are going to keep a record, keep it of the head office meetings and of the local meetings as well. My point is, for the reason I mentioned, that I don't like the idea of sending such a notice.

By Mr. Coote:

Q. Might not the sending of a supplementary notice be left to the discretion of the bank? There is nothing to hinder them sending it if they have outside directors.—A. They have the right now if they want to. It is a question of making it compulsory.

By the Chairman:

Q. You have presided at the burial of how many banks?—A. Three. The Monarch had not got started; it got up to a certain point.

Q. Would you attribute the failure of any of these three banks to the lack of attendance of a sufficient number of directors or to other causes? I do not want you to give the causes—A. No, I can be perfectly frank about it, Mr. Chairman, because the idea I have runs through this memorandum. In these banks which have failed, a great deal of the difficulties have occurred because there is a lack of connection between the Board of Directors and the business of the bank. In other words, if in a bank it is succeeding, and the management desires the Board of Directors to know all about its business, and tells the

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Board all about that business, they are informed. But on the other hand, you take the Farmers' Bank and some of these other institutions, loans or investments were made of which the management did not tell the Board, and therefore the directors did not know, to a large extent, or many of the directors did not know of the loans and investments which ultimately wrecked the bank. What I say is that there is a missing link in between the Board of Directors and the business of a bank, and my idea is—and I have been discussing this with some of the banks that I have to do with, for two years—that there ought to be some method under which the loans and investments of the bank, over a certain amount, should be reported to the Board of Directors periodically, and that those loans and investments should be confirmed as to amounts by the auditors, so as to make sure that the Board knows about them.

Secondly, that the loans and investments of the banks should be checked by the auditors against the credits authorized by the Board, so as to assure them that loans and investments are not made without the knowledge of the Board.

And thirdly, if there are any loans that appear to require attention and consideration or any conditions, the statute says here, against the well-being of the bank, that then the auditor should notify the Board. I am not in favour of that.

Q. I am sorry I asked the question, because you are getting to the audit and that question will come better later on.—A. It merges in with this director thing and the audit, a combination of the two.

By Mr. Coote:

Q. I think you are showing all the more need for this clause 28.—A. Well, I did not see that.

By Mr. Shaw:

Q. Is this suggestion with regard to the elimination of subsection 4, your own suggestion or have you taken it up in collaboration with the banks?—A. It is entirely my own.

Q. Don't you think you are unduly sensitive, Mr. Clarkson?—A. I am just expressing my opinion.

Q. Don't you think the shareholders are entitled to know? Surely if anyone is entitled to know, they are.—A. Certainly they are entitled to know. If they do know that, I don't think it will do you much good and I think it will do you more harm than good.

By Hon. Mr. Fielding:

Q. You would do away then with annual meetings, if the knowledge of the shareholders does no good.—A. No, sir, I did not say that.

Q. That is the inference. You say it would not do the shareholders any good to know this?—A. No, I do not mean that at all. I see no objection to the shareholders knowing how many meetings the directors attended, if it is deemed advisable to do so, but I do think that the effect of that will not be beneficial. That is my opinion.

Q. You have already given us your reason for that?—A. Yes, sir.

The CHAIRMAN: Proceed to your next clause, Mr. Clarkson.—A. The next one, sir, I jump to 113, which still keeps on the responsibility of directors.

Section 113, subsections 1 and 4, are on the question of returns and provide that—

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"(a) Every monthly return made by a Bank shall be deemed to have been prepared, approved and concurred in by the persons who shall sign such return. (These persons will include the President, Vice-President or Director who may sign the return and the General Manager of the Bank) and that

"(b) Every monthly return shall set forth the *true* financial position of the Bank on the last juridical day of the month preceding the date of the return, according to the latest information possessed by or reasonably available to the Officers, *or any of them*, who sign a return—also that the officers who shall severally sign a return shall be deemed so to have ascertained the true financial position of the bank on the last day of the month last preceding the declaration of any dividend;

while Section 153, subsection 3, provides that:—

"(c) Every President, Vice-President, Director, Auditor, General Manager or other officer in the bank who knowingly prepares, signs, approves or concurs in any return required by section 112 *which does not set forth the true financial position of the bank* on the last juridical day of the month preceding the return *according to the latest information possessed by or reasonably available* to the aforesaid officers, *or any officer* who shall sign, approve or concur in the return, shall be guilty of an indictable offence."

If these provisions shall be enacted it will mean,—

(1) That revaluation of the assets and liabilities of banks must be made at least quarterly and possibly monthly.

This is not practicable.

(2) That every President, Vice-President, Director, General Manager or Auditor who shall sign a return will be guilty of an indictable offence if by reason of any fact which has not come to his or their attention at the time of the return, shall prove to be untrue. Each of such persons will also be guilty of an indictable offence if any one of the other persons (who shall sign the return) shall withhold information which makes the return untrue.

Such a provision is unfair and unreasonable.

(3) That the President, Vice-President, and Director who shall sign a return must in self defence make the business of the Bank their principal, if not their sole occupation, before they can acquire the information which they are deemed to be in possession of and for the knowledge of which they are to be held responsible.

This will result in such officers becoming part of the direct management of the bank instead of leaving them—as at present—members of an independent body elected by the shareholders to direct and control the management of the bank.

It is submitted that these sections are not intended to bring about the above conditions or to lay down requirements which are unjust and cannot be complied with, but what is sought is—

1. That if serious impairments shall take place in condition of a bank, such impairments shall be disclosed by the monthly returns of the bank, without waiting for the termination of its fiscal year and the issue of its annual balance sheet, and

2. That directors shall be kept so informed as to the credits, loans, investments and business of a bank that they will at all times understand its position and be in a position where they are able to direct its affairs, and

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3. That the directors and officers who shall sign returns shall be held responsible for the correctness of such returns to the full extents to which they are and should be informed with a proper and full performance of their duties.

To provide that impairments in the position of a bank shall be disclosed by its monthly returns and at the same time that monthly revaluation of all assets and liabilities—which is an impossibility—need not be made, it is suggested that subsection 4 of section 113 should be amended to read as follows:—

“Notwithstanding anything in the last preceding section contained it shall not, except as to the Chief Accountant, or Acting Chief Accountant, of the bank, be sufficient for the purposes of any return, provided for or required under the said section, that such return agrees with the books of the bank, but the return shall set forth the true financial position of the bank on the last juridical day of the month last preceding the date of the return *according to the books of the bank* and to the latest information possessed by or reasonably available, *with the proper performance of his duties*, to each of the officers who sign the return.”

Also that section 153, subsection 3, should be amended to read as follows:—

“Every president, vice-president, director, auditor, general manager or other officer of the bank who knowingly prepares, signs, approves or concurs in any return respecting the affairs of the bank provided for or required by section 112 of this Act which does not set forth the true financial position of the bank on the last juridical day of the month last preceding the date of the return, *according to the books of the bank*, and to the latest information possessed by or reasonably available *with the proper performance of their duties to each of said officers*, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case prescribed therefor, by imprisonment for a term not exceeding three years.”

While in order to provide that those who sign returns shall be responsible for the correctness of the same within the full extents to which they are or should be informed with the proper performance of their duties, it is submitted that section 113, subsection 1, should be amended to read as follows:—

“Every return provided for or required under the last preceding section shall be accompanied by declarations which shall be a part of the return and the declarations shall be in form set forth in Schedule ‘G’ of this Act and shall be signed by the chief accountant, or by the acting chief accountant, and by the president or a vice-president or the director acting as president, and by the general manager or other principal officer of the bank next in authority in the management of the affairs of the bank at the time at which declaration is signed, and such return shall be deemed to have been prepared, approved and concurred in by the persons who have signed the same *to the extents to which they are or should be informed with the proper performance by them of their duties*.”

They are to be liable for the correctness of the return according to the books of the bank, and according to the knowledge which they should have of the proper performance of their duties. Then I say, in order to provide that directors shall be kept so informed as to the business of the bank that they shall be able to direct its affairs, it is suggested:

(a) That lists and statements of all loans and investments over two per cent of the paid up capital of the bank shall be checked and verified as to their

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accuracy and completeness by the auditors, and submitted to the board of directors not less than twice in each fiscal year.

(b) That the auditors shall be required to notify the directors in respect of any conditions against the well-being of the bank and with regard to loans, discounts and investments in excess of two per cent of the paid up capital of the bank in respect of which they think special attention and consideration should be given.

(c) That the Auditors shall be required not less than twice in each year to check the loans and discounts exceeding two per cent of the paid-up capital of the Bank against the authorizations given by the Board of Directors in respect thereto and to report upon such checking to the Board.

(d) That with the completion of each annual audit the Auditors shall make a written report to the Board of Directors and shall appear before the Board of Directors, when the same shall be read, and such inquiries as are deemed advisable shall be made by the Directors of the Auditors.

Then I have drafted here four subsections as 11-B, C, D. and E, to cover those points; that is the responsibility of directors. That is what I have dealing on that point.

Mr. LADNER: I suggest that those subsections which the witness has drafted should be recorded in the notes of the proceedings.

The CHAIRMAN: Yes.—A. Then, to give effect to these suggestions it is submitted that the following be added to subsection 11 of Section 56:—

Subsection 11-B.—"The Auditors shall not less frequently than once in every six months (and more often if the Board of Directors shall so require) prepare lists and statements from the branch and agency reports and returns and the books of the Bank of all loans and investments (excluding bank premises) exceeding two per cent of the paid-up capital of the Bank as on the last juridical day of the month last preceding the date of such lists and statements, and such lists and statements shall be delivered by the Auditors to the meeting of the Board of Directors which shall next follow the date of their completion."

Subsection 11-C.—"The Auditors shall not less frequently than once in every six months (and more often if the Board of Directors shall so require) check the loans, discounts and investments of the Bank exceeding two per cent of the paid-up capital of the Bank as shown by the Branch and agency returns and the books of the Bank against the credits and authorizations approved and given by the Board of Directors in respect thereto. The Auditors shall with each such checking report in writing to the Board of Directors all such loans, discounts and investments as have been made without the approval of the Board."

Subsection 11-D.—"It shall be the duty of the Auditors, and within one month after the date of the completion of the same, to report to the Board of Directors in writing upon their audit of the affairs of the Bank and upon all matters affecting the well-being of the Bank which, in their opinion, need rectification. The Auditors shall at such time also report in writing to the Board of Directors upon all loans and investments of the Bank exceeding two per cent of the paid-up capital of the Bank, which, in their opinion, require special consideration and attention. Such report shall be delivered or transmitted by the Auditors to the President, or Vice-President, and the General Manager of the Bank and thereafter the Auditors shall appear in person before a meeting of the Board of Directors to be called and held for the purpose, when the report of the Auditors shall be read and the Directors shall make such inquiries

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as to the steps taken by the Auditors in the performance of their duties as to the Directors shall seem necessary and advisable."

The CHAIRMAN: Any question on that phase of the statement?

By Mr. Good:

Q. Sir Edmund Walker said the other day what in his opinion should be punishable was guilty knowledge?—A. The general outline I have here is this, that twice a year at least the auditor should check the list of all the loans and investments of the bank over two per cent, and send that list to the Board so that the Directors will know at least twice a year what all the loans and investments of the bank are. The next thing is that at least twice a year they shall check the authorized credits, that is to say, if the Board authorized a credit of \$100,000, they should check that credit against the loans, to see that the loans are not in excess of the credit, and report that to the Board twice a year. Then you have the section Mr. Fielding has in here, that if at any time any loans appear to need consideration or any conditions are against the wellbeing of the bank, they shall be reported to the Board; I agree with that; but there is a point in there I want to speak about; and then finally I provide, at the end of the year, the auditor shall make a written report and appear in person before the Board, and I think that is the most important thing of the whole thing.

Q. Appearing before the Board?—A. Yes. Then the Board shall find out what the auditor knows, and the auditor can tell the Board what they want to know, about it.

By Mr. Coote:

Q. Should the auditor make the return under oath?—A. Oh, he never makes it under oath; I don't think any advantage would accrue from that.

By the Chairman:

Q. That would protect the Board against a General Manager who was operating against the bank's interests, you think?—A. The Board of Directors would have all the essential knowledge of the bank's business in their power then, and if then they neglected to inform themselves as to these loans or investments, or to pay attention to it, then I think they have a common law liability if any trouble occurs.

Q. They have notice?—A. Yes.

By Mr. Ladner:

Q. Under that arrangement it would hardly be necessary to have any scheme of complicated detailed inspection?—A. How do you mean complicated detailed inspection?

Q. Independent inspection, the Merchants Bank affair of course has given rise to a great deal of comment as to the necessity of some external independent inspection, the practicability of which is questioned by a great many people. The point I want to get your opinion on, if I may, is whether or not the suggestion made here would give the Board a control of all the important accounts, intimate knowledge, so that they would either look after them or be responsible for anything that goes really wrong.—A. No, it would put the information before them, but it would still leave them to follow up from that point, in other words you put the list of loans and investments in front of them, and the auditor would report, and I assume the Head Office officials would report, in regard to any of these loans that were questionable, but when you say avoid outside inspection the scheme provides for outside inspection by an auditor. The auditor is to confirm that, you see. In this question of audit—will I take that up here or wait till later?

[Mr. G. T. Clarkson.]

By Mr. Marler:

Q. Has the witness finished with section 113 entirely?—A. Yes.

Q. Are you going to comment on subsection 5, overdue debts, current loans?
—A. Yes, I am going to comment on that.

By Mr. Shaw:

Q. I do not clearly understand yet—do I understand that the suggestions which you make are to be added to section 153, and that 153 practically stands as it is?—A. No, sir; I have varied the form of 153 by the insertion of the words “according to the book” and “with the proper performance of their duties to each of said officers”—they should be liable if the statement is not correct according to the books and according to the knowledge they should have with the full performance of their duties.

Q. That brings up a question—take the audit in connection with the Merchants Bank; we have not the facts before us, but if newspaper reports are correct, the statement prepared by the auditor was from the books?—A. No. My amendment says, according to the information which should be in their possession with a proper discharge of their duty.

Q. Perhaps you could enlighten us by telling us what actually was the fact in connection with the Merchants Bank?—A. I do not know, sir.

By Mr. Morin:

Q. Do you think this responsibility should extend also to auditors?—A. It does under this section.

By Hon. Mr. Mewburn:

Q. Mr. Clarkson said he was going to complete his statement with regard to the auditors?—A. Later on.

Hon. Mr. FIELDING: On section 113 I shall have some amendments to propose, and therefore I do not want to question Mr. Clarkson. That will be put in in due course, dealing with some of the points he has already mentioned; but that is no reason why he should not give expression to his views.

By the Chairman:

Q. The next one?—A. This is comparatively unimportant. There is a change in the statement. Under section 54 you include now “Letters of Credit outstanding” instead of acceptances under Letters of Credit; I don’t think that is important.

By Mr. Hanson:

Q. What is the distinction between the two?—A. In one case you have one million dollars of Letters of Credit outstanding and only \$200,000 of acceptances against it; under the old Act you would include \$200,000 as liabilities and assets; now you would include a million dollars. It inflates it a bit.

Hon. Mr. FIELDING: The object was that the Letter of Credit once it issued became an obligation; but there is the other side to it that until payments are made under that Letter of Credit there is no money really due; it is a fair matter of debate.

WITNESS: It is unimportant.

By Mr. Hanson:

Q. What is your own opinion?—A. I would rather have it the way it was under the old Act, sir.

Mr. GOOD: What subsection is that?—A. 54, subsection 2 (L).

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By Mr. Marler:

Q. Might I ask you—at page 56, going back to section 113 again, subsection 6, statements relating to controlled companies—do you intend to comment on that later on?—A. No, sir.

Q. Would it be in order to take that up now or wait till we come back to that section?—A. I did not intend to comment on subsection 6 at all; I did intend to comment on subsection 5.

Q. Perhaps we had better wait till Mr. Clarkson comes back to that point.

The CHAIRMAN: Very well.

WITNESS: The next is under the heading of this section 54, investments and returns to be made by banks. I have spoken of the Letters of Credit; the next thing is the appropriation account and contingent fund. That is the matter you brought up in the beginning, Mr. Hanson. I spoke about that. The next one comes after that, subsection 5 on page 56, which is a definition of overdue debts. My opinion is that that should be struck out, that overdue debts should be struck out of the statement altogether. What I have in my memorandum here is this:

DEFINITION OF OVERDUE DEBTS

Under section 113, subsection 5-A, it is provided that there shall not be included among the current loans shown in any return or statement “any loan in respect of which the borrower has not for a period of twelve months preceding the date of such return, statement or balance sheet, paid the interest thereon at the rate agreed in cash, unassisted by the bank.” This means that all loans upon which interest has not been paid in the manner required must be shown in the bank’s statements and returns as “overdue debts.”

At the present time the Canadian banks have millions of dollars loaned in the Northwest Provinces and in respect of a very large portion of such loans—made to farmers and stock raisers—the banks have had to carry them, and also provide the interest upon the loans; in the meantime they have obtained collateral from the debtors to provide for ultimate repayment of the loans and interest. With such security in their hands the banks have not unduly forced or pressed for the sale of the assets of the borrowers, consisting of lands, grain, stock and chattels, but on the contrary they have to a large extent made further advances to assist future operations.

If the proposed definition shall be put in force, a large portion of such loans will require to be shown in the banks’ statements as “overdue debts” and with this the case the banks will be compelled to take action to make their customers pay the interest upon their loans even to the extent of forcing them to realize their assets and at a sacrifice. The banks will also be debarred in many instances from making future advances for fear that they in turn will become “overdue debts” before they would be repaid.

In the lumber and pulpwood industries advances are made by banks to customers against products which frequently do not come to market for upwards of twelve, eighteen and twenty-four months from the date when such advances commence to be made; meanwhile the banks are in many instances required to add the interest on such advances to their loans. Under the definition many loans of such a character would require to be shown as “overdue debts.”

It is submitted that it is entirely detrimental to the interests of Canada and to the customers of banks and the banks themselves if there shall be any such definition enforced as will bring about the above mentioned conditions.

It is a serious question if inclusion of the item of “overdue debts” in a bank’s statement is of any benefit or serves any good purpose. No definition of an “overdue debt” can be obtained which will have any real meaning in a bank’s statement unless it be made so drastic that it does more harm than good.

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The important point in respect of the affairs of any bank is not whether its loans and discounts are overdue or not but as to how much they are worth and what can be recovered from them. It is suggested, therefore, that consideration may very well be given to the question as to whether the item of "overdue debts" cannot—and without harm—be eliminated from the statements and returns of banks and the banks be allowed to show the one item of loans and discounts in their statements.

By Mr. Hanson:

Q. You think it will unduly restrict credit along certain lines?—A. I think it will, sir, under that definition. There are lots of these loans that are carried for periods of one, two and three years through periods of depression.

Q. Fully secured?—A. Yes, and you are putting very drastic provisions.

The CHAIRMAN: Mr. Clarkson's views are exactly the same as already given to us. I think we might pass that over; there is nothing new in that view.

By Mr. Marler:

Q. I might ask as regards the succeeding subsection 6 which requires, I take it, in every monthly return of the bank there shall be included the assets and liabilities of controlled corporations, and so on—will you give the Committee your ideas on that subject?—A. I would rather have the statements of these subsidiary companies audited at the same time and attached to the bank's statement.

Q. Can that be done every month though?—A. No.

Q. If it was done once a year and attached to the Annual Statement, would not it be more practical?—A. It could be done once a year.

Q. It could not be done once a month?—A. It could be, but it would be cumbersome and difficult.

By Mr. Coote:

Q. Would it be an auditor's business to know how many of these loans were really past due according to the provisions inserted?—A. It is his duty, but it seems to me it is going to be extremely difficult, if not almost impossible, for an auditor to determine that; I don't know how we are going to do it.

The CHAIRMAN: The next section.—A. Section 113, subsection 7, there is just this:—

"Whenever a bank has appropriated, out of its profits for any period, with the consent and approval of its shareholders had and obtained at any annual or special general meeting, any sum for the writing down of its bank premises or other assets, no portion of such sum so appropriated shall be again taken into account for the purposes of any return required under the last preceding section, or for the purposes of any statement prepared and issued by the bank, without the consent and approval of its shareholders, in like manner first had and obtained".

I do not know what the "other assets" means, or what complications that is going to bring about; for instance out of the profits of the year you write off \$50,000 estimated bad debts; one of these accounts does not prove bad and comes back, \$25,000; the amount is deducted from the profits which are shown in the report which the shareholders approve—I agree with the general tenor of the provision, but I do not see how you are going to deal with that, just what it means or how you are going to get over it. Surely if you write off a bad debt and it is recovered—this happens again and again—you ought to be allowed to take that back.

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By the Chairman:

Q. And put it into reserve?—A. Yes, or contingent account. That is the only comment I have to make on that.

By Mr. Hanson:

Q. You would have no objection if it were limited to writing down bank premises?—A. Not a bit; but I am afraid of what complications "other assets" may bring. The next comment I have in here is with reference to the auditors' sections. First of all section 56, subsection 1:—

"The affairs of the bank shall be audited by two persons who shall be Chartered Accountants, residing in Canada, who have for at least six years preceding the date of their appointment, as hereinafter provided, bona fide practised their profession as public accountants in any city in Canada in which there is located the chief office of a bank."

I think that members of accountants' associations chartered by any province, should be eligible.

By Hon. Mr. Fielding:

Q. It has already been stated that we intend to amend that section?—A. I did not know that; and it should not be limited to auditors in a city in which there is a head office.

Hon. Mr. FIELDING: No, I do not think that point was up. The statement I made here was that we intended to make such a change that a member of a chartered accountants' organization chartered by the Dominion or any province of Canada should be eligible.

Hon. Mr. STEVENS: You would cut out the provisions limiting to cities.

Hon. Mr. FIELDING: Yes, but not cutting out the time limit; he should still have the six years' experience. The point that Mr. Clarkson mentions now, to be a member of a provincial organization duly chartered is sufficient—

Mr. MITCHELL: Regardless of residence.

Hon. Mr. FIELDING: Yes.

WITNESS: The next section will require revision according to the first. Section 3 says the Bankers' Association shall select from such list or lists the names of not less than 25 or more than 40 persons—I think that ought to be increased. With seventeen banks, 25 is too little, and my idea is it should be increased to 40 or 50 as a minimum.

By Hon. Mr. Stevens:

Q. Might I ask the witness if there is any basis upon which an arbitrary number could be fixed? Why should not any one in that list be eligible? Why should the bank management pick out any selected number at all? Can he say upon what basis they should be selected?—A. I have no objection to any way at all; I don't think it would make any difference. The only thing if you limit the number you place the Bankers' Association in a position where they have to select. If you leave it wide open they just eliminate from the panel those that they do not approve of; that is the difference.

Then subsection 6:

"The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank. No person shall be appointed for more than three years in succession to audit the affairs of any one bank nor shall a member of any firm be appointed if any

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member or members of the firm have either alone or in the aggregate acted for three years in succession as auditor or auditors respectively of the affairs of the bank."

I have this to say with regard to that, first, in the manner in which the section is drawn, it is ambiguous, as it may be read to mean either that a person who has acted as an Auditor of a Bank for three years may after an interval of one year again act as an Auditor of such bank for a further period of three years. In the alternative it can also be read to mean that once an Auditor has acted as Auditor of a bank for a period of three years, he may never again act as Auditor of such bank.

In the audit of a bank the most important element before the Auditor in his determination of the value of the assets of a bank is a close and accurate knowledge of the quality of the administration of the bank and the efficiency or inefficiency with which the inspections, reports and statements in the Head office of the bank—and upon which he must largely depend—are prepared; he must also obtain a clear understanding of the basis and manner in which the bank approaches and continues credits to customers. With such knowledge in his possession an Auditor is able to gauge the value of the reports and statements in the Head Office of a Bank and he is placed in a position where he can perform his duties to the best of his ability. As against this if an Auditor shall audit the affairs of a bank without an accurate and close knowledge of the quality of the administration of a Bank and without familiarity with its loans, he finds himself in a position where he is compelled to accept the statements and reports in the Head Office very largely at their face value—and without an understanding as to whether they are prepared efficiently or inefficiently. Under such conditions his certificates as to the state of the bank's affairs will probably be fairly accurate if it shall prove to be that its business is efficiently administered; on the other hand if the business of the bank shall prove to be administered in a loose or slack manner the Auditor may later find himself to be widely astray in his opinion as to the state of the bank's affairs, based as it will have been on statements accepted at their face value.

It is generally accepted that it takes upwards of eighteen months to two years before the Auditor can become even reasonably well informed as to the quality of the administration of a bank and familiar with its principal loans and investments—I mean by that bank auditors—accordingly if auditors shall be changed every three years it follows that for at least eighteen months of their early period of service they will not be in a position where they can perform their duties with any certainty or to the best of their efficiency. The provision is, therefore, more likely to weaken than to strengthen bank audits.

If Auditors are to be changed every three years, it will also mean that within a short period of time twenty-five to possibly fifty persons will become acquainted in varying degree with the business of a bank, and as time goes on such number will increase.

What I mean by that is in auditing the affairs of a bank, we very frequently put twenty-five men at one time into a bank in the end of the year audit. With a large number of persons who will in this manner become acquainted with the business of a bank, it is hardly to be doubted that sooner or later one or more of them may discuss such business, when risk will be run of its becoming public property. Such a condition would be undesirable and unfair to the bank and its customers.

It has been suggested that if an Auditor shall continue to audit the affairs of a Bank for a number of years he is apt to become part of the machinery of the Bank and thereby lose his independence, when the value of his audit would be largely lost—in the case of Insurance Companies, Loan Companies, Trust

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Companies and other financial institutions, with extended interests, the same Auditors act year after year and continue to do so for long periods of time and as long as they are elected. No question is ever raised as to the value of their services diminishing with continued and extended employment but on the contrary it is universally held that familiarity with the affairs of the Companies they audit serves to increase their efficiency and strengthen their audits. It is difficult to understand why this should not apply with even greater force to the audits of Banks when by the very character of their loans and investments familiarity with them is of a far greater necessity to an Auditor in the proper fulfilment of his duties than is familiarity with the assets of the other institutions mentioned.

If two auditors be appointed, it is submitted that the demand of the public for a more efficient and critical audit will be met, and that the one auditor will check the other, and knowledge on the part of both auditors of the actual condition of the bank will serve to give an effective audit. To meet this proposal, it is suggested that section 56, subsection 6, be amended to read as follows:—

“The shareholders shall at each general annual meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank.”

In the alternative, if it should be felt that the appointment of two auditors is not in itself sufficient, but that a change in the personnel of the auditors should be made periodically, then it is submitted that the most effective audit can be obtained by a provision which will ensure that a new auditor must be appointed in substitution of one of the auditors in every five years. That is what I have to say about that, sir.

By Mr. Good:

Q. Mr. Clarkson, would you think it might be an effective check on the management and also the auditing of a bank if one or more inspectors should be appointed by the Finance Department to drop in at any time and have power to inquire or investigate on any point?—A. Well anybody appointed by the Finance Department would probably be, well he would be, subject to just the same risks that his opinions may not be right as would be the bank officials or the auditor.

By Hon. Mr. Fielding:

Q. He would still be human.—A. Absolutely. Now bank auditing is in my opinion the very hardest of all auditing that there is.

By Mr. Chaplin:

Q. I did not hear your last statement.—A. I say bank auditing in my opinion is the hardest of all auditing. No one is immune from making mistakes; the auditors will make them just as likely as the management of the bank. The only thing they can do is to make a thorough inspection and with familiarity form an honest and independent opinion. That is all they can do, and that opinion as an independent opinion, has value; but it may be right or wrong. You can take a loan and look at it, you are in touch with it, it goes along and looks absolutely all right, and to-morrow something happens, it is impaired and there is a loss. Similarly you can take a loan that looks bad; you carry it along and in a year it is out; it is perfectly good. I don't care whether it is the Finance Department or the management of the banks or the auditors, we will all make mistakes, and all we can do is to exercise our best judgment. Now then, if the directors, with a knowledge of the loans of the bank, under the method

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that I spoke of some time ago, and the auditors exercising an independent and honest opinion—I don't think you will accomplish very much more if the department send men in there.

By Mr. Hughes:

Q. The mere fact of the department appointing them would not make it any better?—A. Not a bit.

By Mr. Good:

Q. You are providing already in the proposals made up to date, several additional checks over what have been in existence in the past, is that not so?—A. I am, sir, yes. I say to you that I have been discussing these matters with some of those that I have had to do with for two years, and several of the banks of which I am auditor are working on that basis now, voluntarily. They recognize that in the course of evolution of banking, these conditions occur and you have to meet them as they occur.

Q. You are providing against the frailties of human nature?—A. Well, we cannot legislate against that.

By Mr. Marler:

Q. You have suggested that one of the auditors retire after a certain period, five years?—A. Yes.

Q. You do not say that they should not become eligible for reappointment after four or five years?—A. No, I say you should change one of the two after four or five years. I know this is a subject of controversy. I have discussed it with the bank auditors, that it takes an auditor a year and a half acting normally before he gets familiar with the assets of the bank. If you put him in there for three years only, then for half his time he is not fully efficient. If you put him in for five years, then for two-thirds of the time he is efficient. Now I say if in periods of five years there has got to be a change, then you have two men for the first five years, and two different ones for the second five, and the same two men can come back for the third five. I think five years is the minimum of what you can allow and get complete efficiency.

By Mr. Clark:

Q. Why limit it to five years?—A. Well, you are going to make a change.

Q. Why make a change?—A. I have not any objection if you leave it, but I have understood the policy was to make a change and I think if a change is to be made that a five-year period should be the minimum.

Mr. HANSON: The Finance Minister said there is no finality about legislation.

Hon. Mr. FIELDING: Some of the things Mr. Clarkson is suggesting to-day will be found to be included in the amendments that will be submitted, but I thought the Committee should benefit by his large experience and so I have not interrupted.

By Hon. Mr. Mewburn:

Q. I do not think he has made any statement regarding the new proposed section regarding an auditor not undertaking other employment.—A. I was going to work up to that.

By Mr. Hanson:

Q. Before you leave this point, should not the shareholders have something to say as to who should be their auditors and for how long?—A. I was assuming that it was to be left with the shareholders to elect them annually, Mr. Hanson.

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Ordinarily, the proprietors of an institution have the right to say who shall serve them in the performance of duties unless it crosses the path of public policy. If not, I still think that the shareholders of the bank ought to have the right to nominate their auditors.

Hon. Mr. FIELDING: They will have that right under this, subject to the panel, that is all. The clauses we have been talking about merely deal with eligibility.

By Mr. Hanson:

Q. There is a prohibition there, though.—A. It is just a question of how far public policy should bear on the matter, Mr. Hanson.

By Mr. Coote:

Q. It seems to me you made a remark about credits over a certain amount being authorized by the Board, or did I get your statement right?—A. Before any loan is granted in a bank, the directors have to authorize it.

Q. They do not have to, do they?—A. Yes, they have to; if they don't they ought to; but it is accepted policy that they must do it. Very well, now this trouble has occurred in banks, from the directors authorizing, say, a loan of \$250,000 and the management making the loan \$500,000. That is exceeding their authority by twice. Now what I say is this, that the auditor ought to report to the directors at least twice a year whether these authorizations are adhered to or exceeded. As a matter of fact, in our auditing up to this point, and for the last ten years, we always do check the credits against the loans, and where any loans are made in excess of what the directors authorize, we report them.

By Mr. Hughes:

Q. How often?—A. At the end of the year, sir.

By Mr. Coote:

Q. And do you report to the directors on the value of the security held as collateral to these loans?—A. No, what I do is this: we go over every loan, we value the loan according to the securities or the conditions or the business behind it; if we are of the opinion that the securities or the business or the responsibility behind the loan make it good, we pass it; but on the other hand, if we think there may be a loss, we put it up, we provide for that loss.

By Mr. Shaw:

Q. How can you determine that?—A. It is a matter of opinion.

Q. You do not have an inspection made of the security, other than the mere documents?—A. No, we have the documents and follow them through. If the loan is a large one, an important loan, sometimes we ask the bank to take the necessary steps to prove the value of the security.

Q. Do you mean getting an appraisal or something of that sort?—A. Yes.

Q. So your position is that as an auditor you simply take the information which the bank has provided for you and draw your conclusions from that?—A. You draw your conclusion and if you have a very big loan, and it appears to be questionable, you ask the management of the bank to arrange to have the security appraised, or something along that line done.

By Mr. Hanson:

Q. It is impossible for the auditors to be appraisers of securities too, except the standard securities?—A. If you are familiar with the loans of an institution

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for a long time, and familiar with the business, you imbibe a certain knowledge, if you mix up in banking for years and years, you can size up a situation to a certain extent.

Q. Take loans against manufactured lumber?—A. Then it becomes a question of quantity and you find out whether it is there or not.

By Mr. Chaplin:

Q. I presume there are plenty of loans made without security?—A. Absolutely. On the personal equation.

Q. The very best loans?—A. But again you cannot say it is without security, because you know the debtor has lots of security but has not hypothecated it.

By Mr. Shaw:

Q. Do you suggest that the auditors can fulfil the functions of an appraiser by reason of their long experience?—A. No, I say we have got to, to a certain extent.

Q. That must be a very difficult task?—A. That is exactly what I am saying to you.

Q. With business extending from one ocean to the other?—A. That is exactly what I am saying, that the audit of a bank is the most difficult audit I know of.

By Mr. Coote:

Q. With a loan of a million dollars say, would you not make some investigation of the securities for that loan?—A. Well, a loan for a million dollars say on a lumber account; you will find first of all so much lumber; the bank gets reports from its agents or something else from month to month, showing what lumber is accumulating in stock; in logs or in manufactured lumber.

By the Chairman:

Q. How long do you think it will take to finish your statement at the rate we have been going? Will an hour be sufficient?—A. I think so.

The CHAIRMAN: If you will be seated for a moment. It is a quarter to one, gentlemen, and there are a couple of matters to be dealt with. In the first place Mr. Fielding wishes to make a statement to the Committee about his amendments.

HON. MR. FIELDING: I think it will facilitate the business of the Committee if I submit these amendments at once; I will not read them now, but hand them to the Chairman so that they may be brought to your consideration, some amendments or modifications which I propose. They have been suggested by the inquiry which we have had and by other opportunities of studying the question, and cover very many of the points which have been discussed. For example, much that Mr. Clarkson has been saying to-day is covered. In some cases almost exactly as he has suggested. I propose to have these amendments printed immediately, so that copies will be available. I used the expression a little while ago that there is no finality about legislation. There is no finality about these. There are some clauses of the Bill still under review, as to which we have not reached conclusions, and I want to reserve the right—I am sure the Committee will accord it—of using any information that may be obtained in the Committee, or outside, to submit other amendments. But I think the amendments I am going now to ask the Committee to receive, will cover very much of the ground of our inquiry, and I desire to submit them at once with the understanding that if any matters are still under consideration and further discussion leads to further review, I will be very glad to submit a further amendment. They are numerous and I think the best thing I can do is to have them printed at once and I will

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ask the Chairman to have them printed so that the members of the Committee will receive them without delay.

The CHAIRMAN: They may be printed on separate sheets.

By Mr. Hanson:

Q. Mr. Clarkson was making an answer which was important to me. I should be glad if he might finish it.—A. I was saying that if you take a lumber account for a million dollars.

Mr. COOTE: That was the one I suggested. Go on.—A. In the first place, the assets will be these: You will have a limit probably; you place rather a nominal value on that, unless it happens to be down in this part of the country where you know fairly well what the market value is. Then you will have a mill. You take that in at fifteen or twenty cents on the dollar. Then you will have knowledge of their stocks.

Q. The point I want to get at is, do you get this information just from what the bank gives you, or do you get this of your own accord?—A. Oh no, you depend on the information that the bank has. But if, when you go to that you have any doubt as to the correctness of it or the sufficiency of it, you are always at liberty to say to the management of the bank: Please have a special appraisal made of this, or this or that inquiry made. I have done that. You can get the information if any of it is lacking.

Q. You can go and get it yourself?—A. No, you cannot go and get it yourself. You cannot intervene between the bank and its customer; but you can ask the bank to get it through an agency that will be satisfactory to you.

Mr. MARLER: May I make a suggestion to the minister as regards these amendments? Would it be possible for Mr. Clarkson to see these amendments while he is here?

Hon. Mr. FIELDING: Yes, I have a copy for the Press, and it can be shown to Mr. Clarkson immediately. I have no objection in the world. I have copies here for the Press and the Committee and one of these can be given to Mr. Clarkson for his consideration at once. I do not mean that Mr. Clarkson will want to go over them at this moment.

The CHAIRMAN: Have you finished the answer to that last question?

By Mr. Hanson:

Q. As to the million dollar loan?—A. Yes, I have finished that.

The CHAIRMAN: Gentlemen, Mr. Coote this morning at the beginning of the session raised the point that we should sit less frequently in the future than we have been sitting in the past. I quite appreciate the view that some members take, namely, that frequent meetings of the Committee in one day interfere with Parliamentary duties and personal work. At the same time it must be remembered that this Committee is not the only Committee offending in that respect. It is also to be remembered that if we desire to complete this and other business and have a prerogation of the House within a reasonable time, we must meet at least more than once a day, at least during the week.

Mr. KELLNER: Would you define a reasonable time there?

The CHAIRMAN: Perhaps you will help me do that. I was going to suggest that if Mr. Clarkson can finish in an hour, we might meet at five o'clock this afternoon. Mr. Edwards is the next witness and the Minister of Finance will perhaps be better pleased if he were not called to-morrow morning until he has had an opportunity of studying the statement presented by Mr. Clarkson this morning; in which event we might meet to-morrow afternoon. I do not know how that would please.

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Hon. Mr. MEWBURN: What is the objection to Mr. Clarkson going on with his evidence this afternoon?

The CHAIRMAN: Just the objection of some of the members that they have not time to attend to their Parliamentary duties and their private correspondence.

Mr. COOTE: I do not care how early we get up in the morning, for the morning sessions, but if this Committee sits every day in the afternoon, it means that the members have got to attend the afternoon session and we have sat several times in the evening. There was a very important question before the House the other day, and the members who attended this Committee did not have the privilege of hearing the Minister of Justice defend himself, nor had we the privilege of hearing Sir Henry Drayton make his statement in the matter. When I made this statement here, my friend Mr. Mitchell said that I might have stayed out of the House and did not need to vote. Now the rule requires us to vote Yes or No on these questions, and I think we all agree that it is not the business of members to absent themselves from the House; I am not saying we should never meet while the House is in session, but I think we have made a practice of meeting too often while the House is in session and I want to register a very emphatic protest against it.

Mr. LADNER: I fear the Chairman may have included me in Mr. Coote's suggestion. I think the importance of the revision of the Bank Act and the prominence of this question under the country's condition at the present time, requires quite a lengthy and careful consideration, and I think when we have got the situation before us we should go at the work and get it done, and not have the House continue until midsummer, August or September.

Some Hon. MEMBERS: Hear, hear.

Mr. LADNER: There may be others of the same view and I would like to strongly urge upon the Committee the wisdom of keeping in the future to the practice of the past; it is a good one, and if we have any question in the House that we are specially interested in, we can always get it in Hansard, and if we were not present when it was discussed we have probably saved time by losing the opportunity to speak.

Mr. GOOD: Mr. Chairman, I quite agree with Mr. Ladner as to the importance of the task we are undertaking, but I cannot help feeling that his solution of the difficulty is not the wisest one under the circumstances. I feel very strongly that if we cannot get through and attend to the business of the House at the same time in a reasonable way, we might better make some temporary arrangement of the Bank Act and continue the work next year.

Hon. Mr. MEWBURN: To have an expression of opinion I would move that the Committee sit this afternoon at 4.30.

The CHAIRMAN: You might make that five o'clock Mr. Mewburn.

Hon. Mr. MEWBURN: I understood you to suggest five o'clock, Mr. Chairman, and I thought of 4.30 as a compromise.

The CHAIRMAN: The Minister of Finance can attend this afternoon. The motion is that the Committee resume its session this afternoon at 4.30 o'clock. Carried.

Mr. SHAW: This does not settle the question raised by Mr. Coote?

The CHAIRMAN: No.

Mr. SHAW: Because I do feel with Mr. Coote that the importance of this matter deserves the fullest possible attention, and we cannot do it properly by meeting two or three times a day and carry on our Parliamentary duties also.

The CHAIRMAN: I do not think we will meet three times a day.

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Mr. SHAW: I do not think we should always meet twice a day, and I do think it is important that we should go at it more deliberately.

Mr. GOOD: Just a moment, Mr. Chairman, before you declare the meeting adjourned. I learned this morning that Mr. Bevington is expecting to leave for the West to-night. He has been one of our chief witnesses and I think he ought to be given the opportunity of speaking to the Committee for ten minutes at some time before he leaves. I think it would be only courtesy to give him the opportunity just to speak in reply on any point on which there has been misunderstanding. We have accorded that privilege to Major Douglas, and I think we should do the same thing for Mr. Bevington.

The CHAIRMAN: You will have to bring that up again at half past four.

The Committee adjourned until 4.30 p.m.

AFTERNOON SITTING

The Select Standing Committee on Banking and Commerce resumed at 4.30 p.m., Hon. A. K. Maclean, the Chairman, presiding.

G. T. CLARKSON, recalled.

By the Chairman:

Q. Where were you?—A. I was at subsection 6 of section 56, that is with regard to the appointment of auditors. My suggestion was that two auditors should be appointed, and one of them changed at the end of each five years, but that if so desired one auditor could be elected indeterminately. Now, I have read these amendments, but I am not in a position to speak of them; I would like more time to fully consider them.

Q. Go ahead with your statement anyway.

By Hon. Mr. Fielding:

Q. You mean those amendments I proposed to-day?—A. Yes, that is what I mean. Subsection 8 I had an objection to, but it is covered by Mr. Fielding's proposed amendment.

By the Chairman:

Q. You had better tell the committee what subsection 8 is?—A. Subsection 8 is this:—

“The remuneration of auditors shall be fixed by the shareholders at the time of their appointment, and in the event of any vacancy and the appointment of another auditor under the next preceding subsection, the remuneration so fixed shall be divided according to the length of time each auditor acted as auditor of the bank.”

I say that should be left to the directors, or adjusted between the auditors themselves, because the length of time of appointment is not necessarily a fair basis for adjustment of remuneration; that is the only point.

By Hon. Mr. Fielding:

Q. And that change has been made in my amendments?—A. Yes, and it is left to the directors, which I think should be perfectly satisfactory.

The next section is sub-section 11 which reads as follows:—

“It shall be the duty of the auditors to report to the general manager and to the directors in writing any transactions or conditions affecting

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the well being of the bank which are not satisfactory to them, and which in their opinion require rectification, and without restricting the generality of this requirement they shall report specifically to the general manager and to the directors from time to time upon any loans exceeding one per cent of the paid-up capital of the bank which in their judgment are inadequately secured, but this provision shall not be construed to relieve any director from the due and proper discharge of the duties of a director. The report shall be transmitted or delivered by the auditors to the general manager at his office and to each director at his last known post office address."

Now, there are three points in that sub-section. The first are those lines, any conditions which are not satisfactory to the auditor; I think that those should not be in there. For instance, a bank may make a loan that is not satisfactory to the auditors, but he would entrench upon the management of the bank if he objected to it. My opinion is that the sub-section should be amended to read as follows:—

"It shall be the duty of the auditors from time to time as the same shall come to their attention to report in writing to the General Manager and Directors—

1. Any transactions and conditions affecting the well being of the bank which in their opinion need rectification.

2. Upon any loans and investments exceeding two per cent of the paid-up capital of the bank which in their judgment require special consideration and attention."

I think one per cent is too small, and the word "inadequately secured" does not in my opinion cover what is wanted. And then this amendment:—

"The report so to be made shall be transmitted or delivered by the auditors to the general manager at his office and with such transmission or delivery the auditors shall notify each director by registered letter, post prepaid, addressed to his last known post office address that they had made such a report and have delivered the same to the general manager for the inspection and consideration of the members of the board of directors."

I do not think that any report by the auditor on the loans of the bank should be mailed broadcast to the directors, and possibly get in the hands of people other than the directors. I think it should be sufficient if the report be delivered to the head office of the bank, and then the directors be notified that the report is there in the head office, and then they can obtain all information about it, but I do not think it is right to spread information regarding loans or investments outside of the bank.

Then with respect to that section I feel this, that if any loan or investment which needs attention has already been reported to the board of directors, I think the auditor should be relieved from the necessity of again having to report it. To provide that I had prepared a sub-section 11-A as follows:—

"If any of the conditions or matters in the preceding sub-section, provided to be reported, shall have been specifically notified to any regular meeting of the board of directors, held prior to the time when such conditions or matters came to the attention and notice of the auditors, and in such manner as in the judgment of the auditors reasonably set forth and exhibited the facts in respect thereof then the auditors shall stand relieved from any obligation to report the same to the directors as hereinbefore provided for."

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In other words, if the condition they wish to report has already gone before the Board, I do not see any advantage in their again reporting it.

Now, then, subsection 12; in the old Act the auditors were required to check the cash and securities at the head office or chief office of the bank at a period in the year other than the end of the year. I think it is inadvisable to drop that provision. Where there are a very large amount of securities in the chief office of a bank I think it is of assistance and helps towards the security of the audit, if the old provision remains in the Act and the auditors be required to check them in the mid-year, or some other time. If that be done there would be another sub-section under 12 to the effect that they would certify that they had checked the securities at that time.

By Mr. Mitchell:

Q. Why do you think that?—A. Under present conditions some of the banks have a very large amount of securities in their chief offices and head offices, and I think the fact that the auditors have to check them during the year makes for more safety than if they are left over the whole period of the year. I can say in some of the institutions we have had to do with, they have rather insisted and asked that it be done for their own security.

By Mr. Ryckman:

Q. That check would include securities held by the bank for safe keeping belonging to customers?—A. That raises a point. We have always insisted in our audit that where securities held for safe keeping are in the custody of officers of the bank then we have to check not only the securities held for safe keeping, but the bank's own securities to avoid any possibility of switching. That requirement has resulted to a large extent in customers removing their securities and taking safety deposit vaults, where they have them under their own control. In any event that is the policy we pursue in connection with that. In the old Act the auditors were entitled in the preparation of the statement to rely upon the reports and returns from the branches; in the new Act that is eliminated. Well, the auditor cannot prepare his balance sheet except on those returns; therefore, I think the old section should be put back. I put in here as subsection 12A:—

“If a bank has agencies or branches it shall be sufficient for all the purposes of item (e) of the preceding subsection if the auditors are allowed access to the returns, reports and statements and to such copies of extracts from the books and accounts of any such branch or agency as have been transmitted to the chief office but the auditors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash, securities, documents and vouchers at the branch or agency.”

They cannot prepare the statement other than from this return and the head office books; therefore I think they should be entitled to rely upon those returns just as before.

In discussing the directors' responsibilities this morning, I said I held the opinion that the auditor should at least twice a year prepare a list of the loans and investments exceeding two per cent of the capital of the bank, and with that list certified by the auditor as to the amount of the loans and investments should go before the board. I have here at clause 11B:—

“The auditor shall not less frequently than once in every six months (and more often if the board of directors shall so require) prepare lists

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and statements from the branch and agency reports and returns and the books of the bank of all loans and investments (excluding bank premises) exceeding two per cent of the paid up capital of the bank as on the last juridical day of the month last preceding the date of such lists and statements, and such lists and statements shall be delivered by the auditors to the meeting of the board of directors which shall next follow the date of their completion."

If those lists are given to the directors then they will know at least twice a year of all the loans and investments of the bank in excess of two per cent of its capital.

By Mr. Good:

Q. You said this morning, I think, 2 per cent of its total loans?—A. No, 5 per cent of its total loans, that is with regard to the appropriation account.

Q. Oh, yes.—A. Then again to see that the credits authorized by the board are not grossly overrun I have this provision:—

"The auditors shall not less frequently than once in every six months (and more often if the board of directors shall so require) check the loans, discounts and investments of the bank exceeding two per cent of the paid up capital of the bank as shown by the branch and agency returns and the books of the bank against the credits and authorizations approved and given by the board of directors in respect thereto. The auditors shall with each such checking report in writing to the board of directors all such loans, discounts and investments as have been made without the approval of the board."

We have always followed the policy in our audits, although the Act does not call for it, of checking the credits against the loans. Then I have this provision:

"It shall be the duty of the auditors, and within one month after the date of completion of the same, to report to the Board of Directors in writing upon their audit of the affairs of the bank and upon all matters affecting the well being of the bank which in their opinion need rectification. The auditors shall at such time also report in writing to the Board of Directors upon all loans and investments exceeding two per cent of the paid-up capital of the bank which in their opinion require special consideration and attention. Such report shall be delivered or transmitted by the auditors to the president or a vice-president and the the general manager of the bank, and thereafter the auditors shall appear in person before a meeting of the Board of Directors to be called and held for the purpose, when the report of the auditors shall be read and the directors shall make such inquiries as to the steps taken by the auditors in the performance of their duties as to the directors shall seem necessary or advisable."

In other words I think the auditor should go before the Board of Directors with a written report at the end of the year and be subject to be questioned as to what they have done and what they have to say about their audit. I think that that will do more to strengthen the audit, and at the same time it will go a long way to inform the board as to various investments and loans.

By the Chairman:

Q. Is that compulsory upon the board?—A. I was making it compulsory on the auditor to appear before the board and do it.

Then the next we come to is subsection 16 which reads as follows:

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"No auditor and no member of any firm of auditors shall be eligible for appointment as auditor of a bank hereunder if he or any member of his firm while acting as auditor of a bank accepts any retainer or undertakes any employment on behalf of or at the instance of such bank, or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder."

With regard to that section I can only say this, that in our case the remuneration we get from bank audits is 4 per cent on the turnover. The direct cost for our two most important bank examiners is 2 per cent; our profit is not one per cent. Now if a section of that kind is to be inserted in the Act I cannot afford to continue as a bank auditor, and I think that very few of the larger firms in Canada who alone have got the staff to do a bank audit, can retain the position. I think we have no option; we cannot afford to do it, and we will have to give up the audit of the banks.

By Mr. Marler:

Q. What would be the result of that Mr. Clarkson?—A. Well, Mr. Marler, in carrying out a bank audit I have at times to put as many as 25 men in a bank at one time. I have got a special staff for that work, which is constantly engaged. A bank audit is a very heavy piece of work. It takes considerable length of time, the employment of a number of employees, and you have got to have high priced and experienced people. Now I don't think that the audit of a bank can be carried out properly excepting by a large firm, which has got a sufficient staff and which is able to employ and pay for competent bank examiners. Now then if this clause 16 goes in, the large firms are the ones who will not be able to afford to continue bank auditing; therefore I think it will have to be done by other people who have not got the necessary staff and to this point the necessary experience.

By Mr. Irvine:

Q. Will you explain why you would not be able to do the work under this clause?

The CHAIRMAN: Perhaps Mr. Irvine would like to have the meaning of the clause explained?

Mr. IRVINE: As applied to your difficulty there.—A. The meaning of the clause is this; I am auditor of the Dominion Bank. The remuneration I get from the Dominion Bank is \$6,000 a year. It costs me not less than \$4,000 a year to do it; perhaps more, exclusive of my own time. On the other hand, I have a great deal of business that comes to me through the Dominion Bank. We audit a number of the accounts of their customers. If the bank has a large loan which gets into difficulty, they very frequently turn to us and ask us to make a survey of the situation, and advise what is the best thing to do in the interest of the bank. Now under this clause, if the bank turns to me and asks me to look into one of their larger accounts, I am ineligible to act as auditor of the bank under the Act. Now the remuneration that I draw as bank auditor is negligible as far as the profits go. The remainder of the business is important. I cannot afford to give up a large portion of my business which comes to me through the bank for the sake of four or five per cent of the volume. That is the situation.

By Hon. Mr. Fielding:

Q. Would you, from the wording of the clause, Mr. Clarkson, form an impression as to its object?—A. Well I could read nothing else in it Mr. Fielding

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than that it was felt that if a man who was auditor of the bank did work of other character for the bank, that it might have an effect upon his carrying out his duties properly. Now what I say to you is, that any influence that would cause an auditor to perform his duties improperly, will not in my opinion, spring from the business he gets from the bank, but he is more likely not to do his duties properly if he is afraid that performing them will wreck the bank. That is where the rub comes.

Q. The auditor's duty is to examine into the methods of the bank?—A. Yes, sir.

Q. Therefore the interests of the auditor and the interests of the bank are not necessarily or absolutely the same?—A. No, sir.

Q. Then is it not very desirable that the auditor should be absolutely independent of the bank manager?—A. Well all I can say is this that in every other kind of business, insurance companies, loan companies, financial companies, it is always felt that the auditor is perfectly competent to do his duty properly even though he does subsidiary business. If it is felt that because he gets business from a bank he is likely to be led astray, he is not the proper man to employ.

Q. We are bound to believe that all these gentlemen are men of high standing and so forth, but I suppose much of the criticism of the Bank Act now arises from what happened in the case of the Merchants' Bank. In that case the audit system was certainly not good? I am putting it mildly.—A. I agree with you.

Q. I would not say there was collusion between the management and the auditor, but there was something not far from it. Is it not desirable that some legislation, if it be possible, should be devised that will secure the independence of the auditor?—A. What I feel sir, is that if you get two auditors, you have got that check. And I do not think that any reputable audit firm, with their whole future at stake, will fail in their duty.

Q. It was a very reputable firm that audited the Merchants' Bank?—A. I cannot understand that situation at all sir. Frankly, I cannot understand it. I do not know what occurred, but I cannot understand the situation.

By Mr. Good:

Q. Would it not be wise to have an investigation and find out what happened?—A. I am not the proper person to express an opinion.

By Mr. Irvine:

Q. Even if you had to give up your bank audits, it would not be much of a loss to you if you only have four per cent?—A. No, not much of a loss to me, but what I fear is that what will obtain with me will obtain with the other larger firms, and you will be left without the people who have the staff and experience to do the bank audits to the best advantage.

By Hon. Mr. Fielding:

Q. You think we would have difficulty in getting suitable auditors. Don't you think others will be ready to take the job?—A. Let them take it. Consider our situation: I pay \$10,000 a year for two or three men for this especial purpose, and then I have a staff of seventy people from which I can call 25 men at any time and put them in a bank in a hurry, and get them through and out again.

By the Chairman:

Q. Is it difficult to get men in Canada to do this class of work, that is auditing banks?—A. It is special work and needs special technical experience.

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Q. A man may be an accountant, but not an auditor for this purpose?—

A. The ordinary run of accountants is not in touch with the banking system.

By Hon. Mr. Fielding:

Q. Could he not acquire that knowledge in a short time?—A. He can acquire the knowledge, sir, yes, after some time.

By Mr. Irvine:

Q. Could not the fees be raised if necessary to make it possible?—A. Suppose you double or treble the fees, it would not compensate for the loss of the other work.

Q. But I mean in the case of an auditor catering to this particular work and giving up other work.

By Hon. Mr. Fielding:

Q. And you would only be giving up so much of the business as came to you let us say from the Dominion Bank; you would not have to give up anything else?—A. Well I have four banks sir.

Q. You would have to give up, according to that clause, any auditing which came to you through the management of that bank, but you would not have to give up any auditing which came to you in other ways?—A. I would prefer to give up the bank audit and I think the other firms would too. There is a great deal of responsibility and very little profit in it, and it is just a question of connection, and if it came down to a choice between them, I think nearly all the firms at present doing bank auditing would give it up.

By Mr. Clark:

Q. It would hardly pay a bank auditor to specialize on bank audits if he is only permitted to retain the bank for a short period of time, three or five years. Mr. Irvine said you might get auditors to specialize on bank auditing. I am suggesting that it would not pay a man to specialize on that particular type of work?—A. The remuneration would not pay him to do it because he has got to engage a staff you see and to employ it only occasionally on this work. He would lose money.

By Mr. Irvine:

Q. But if you gave up your bank audits would you not give up the connection and lose the business too?—A. No, sir.

By Hon. Mr. Fielding:

Q. If you obtain the business through the bank and if you broke your connection with the bank, Mr. Irvine's question would suggest that you would not get the business you now get from that connection?—A. If we gave up the bank audit that would not interfere with our connection in other directions.

By Mr. Mitchell:

Q. Under this clause the new auditor appointed in your place cannot take that business away from you because he is prohibited under this section?—A. Absolutely. There is another aspect too. If a man is appointed auditor to a bank because the shareholders believe he is competent, surely it is not unfair to the shareholders, to allow them to employ that man to help them save their property.

By Mr. Marler:

Q. Have you any specific instance in mind?—A. Well, I do not like quoting them Mr. Marler, but I have had instances in mind where we have dealt with accounts. I have one instance in mind where we saved a great deal of money.

Q. For the bank?—A. Yes, sir.

Q. By reason of your being able to take this outside work?—A. Yes, sir.

By Mr. Clark:

Q. Is the outside work of material assistance to you in the performance of your duties as bank auditor? In other words, you become familiar with the bank's customers and their business and that is of some assistance to you in making the bank audit?—A. Well, it works rather the other way. If a bank gets confidence in its auditor and if a person applies for a credit of 100 or 150 thousand dollars, the bank does not want to advance that credit until it knows something about the affairs of that customer through people on whom it can depend, and the natural thing to do is to turn to the auditors and say: Now make a survey of this situation and tell us what the facts are.

By the Chairman:

Q. Is that becoming a practice in banks on large advances?—A. The banks are more and more, Mr. Chairman, employing the services of accountants; it has been increasing to a very large degree over the last ten years.

Q. That is prior to making advances?—A. To an extent, yes, and in the renewal of advances.

By Mr. Morin:

Q. Would there not be an advantage for the bank in having the audit of a firm with whom the bank is dealing, made by its own auditor?—A. If it has confidence in its own auditor, yes, certainly there is an advantage.

Q. Would not the auditor already have a certain knowledge of the affairs of that particular institution?—A. It cuts both ways. It helps both ways.

Q. That is an argument?—A. Yes, it is an argument.

Q. It is beneficial to the bank and permits to do the work more cheaply for the client?—A. Well I don't know about the more cheaply, but the bank believes it is an advantage to it in dealing with its credits.

By Hon. Mr. Fielding:

Q. The kind of audit you have been speaking of now, would refer to the audit of the accounts of the customers of the bank?—A. Yes.

Q. Your observations would not apply to other transactions outside of their own customers, when you speak of business which comes to you through the bank?—A. Take another case, sir. Suppose a customer fails, and he wants to make an assignment to me. If the Dominion Bank were to send the customer down to make an assignment, I am ineligible to act as auditor.

Q. There is I presume some volume of business, you have not defined it very clearly, outside of the auditing of customer's accounts, business which comes to you on the recommendation of the bank; is there a distinction which can be made between the audit of a customer's account, which possibly some might say is a part of the audit of the bank, apart from that is there any considerable volume of business which might be affected by this clause?—A. There are three classes of business, sir. First of all, if a customer gets into trouble, you are asked to make a survey of the situation and very frequently keep the account under observation until it works out.

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Secondly, if the bank is advancing credit to a firm, and it wants to make sure that the credit is right, and the customers' affairs being properly prepared and administered, it asks the customer if it will appoint the bank's auditor, its auditor.

Thirdly in the case of liquidations, the bank frequently turns business to its own auditor. Now I may say with regard to our own firm that in this connection we have used every endeavour we can to retain business to other accountants and auditors who have not failed in their duty to such an extent that the bank has lost confidence in them, we do not voluntarily or willingly take away business from any other firm by reason of that condition.

Q. It is not a question of taking away business; it is a question of whether such relationship might be established between the bank management and the auditor where it is desirable that they should separate and the audit should be independent. Unless it serves that purpose the clause is unnecessary.—A. Well, sir, from what I have seen I don't think the fact that an auditor gets business through a bank is going to affect him in the performance of his duty, but if it is felt that it does and that he is not retaining his independence, then I do not believe the banks can retain the larger firms as auditors if you are going to set up a clause like this.

The CHAIRMAN: Then you may proceed with your next point, Mr. Clarkson.

The WITNESS: Then I have a new provision that I was suggesting and that is this:

At the present time an auditor is practically in an autocratic position as far as the bank is concerned. If at the end of the year he goes in to audit the statement of the bank's affairs, and he takes a very arbitrary view of loans or investments, he can refuse to sign the statement of the bank unless his own particular views were given adherence to or replied to. We are all human, and the auditor may be wrong, or he may be right, but nevertheless he insists on his view, and the interests of the shareholders of that bank and its fate is left wholly in the hands of that one man, the auditor, and he may be right in his judgment or he may be wholly wrong. Therefore I think there should be some forum in which if an issue should arise between an auditor and the management of the bank, a decision could be given; there should be some reference to someone who could judge the issue between them, and make a finding and compel it to be adopted. You may get a bank with half a dozen loans, aggregating a very considerable amount; the auditor goes in there, and he gets a little bit panicky and he takes a very narrow view; he says the losses on these loans are a million and a half and he will take it from the reserve fund. He does so and there is a run on the bank and it may be wrecked. The directors may feel that the auditor's opinion is absolutely wrong, but they have no means of defending themselves or defending the bank. I think under those conditions there should be some method of referring the matter to the department or someone else to investigate the situation, and act as an umpire to determine the issue between the bank and the auditor. So I have got this clause. This is section 56, subsection 11 (f):

"If having regard to the report to be made to the shareholders under the subsection hereinafter following any dispute or difference of opinion shall arise between the directors or officers of the bank and the auditors, or either of them, as to any matter whatsoever then any of such persons may refer the matters at issue to the Minister who shall investigate and determine the issue and the finding of the Minister shall be final and conclusive and shall be binding upon all parties and shall be adopted by them for the purpose of the report to be made."

[Mr. G. T. Clarkson.]

By Hon. Mr. Fielding:

Q. Is the Minister likely to be less autocratic than the auditor?—A. Then, sir, suppose you allow the Minister to appoint two or three persons? Anything as long as you get an umpire in there, but I think the situation at present is unfair to the bank and the auditor.

Q. When will you reach finality? The more men you employ the more need of an appeal beyond them.—A. Well you have two auditors in the bank and one may take an autocratic view and refuse to sign the statement and he may be wrong.

By Mr. Mitchell:

Q. Under that section as you have drafted it now, would not the Minister, who would have to decide, be virtually the final auditor, reporting to himself?—A. He would be the final arbitrator.

Q. And reporting to himself?—A. No.

Hon. Mr. FIELDING: Would he not be reporting to the shareholders?

By Mr. Mitchell:

Q. Yes, but deciding as to what the final report of the audit shall be, to be made to the Minister of Finance.—A. No, to the shareholders. It is for the public statement. My idea is that there ought to be some umpire in there to report to the shareholders.

By Mr. Irvine:

Q. Don't you think the auditor ought to be prepared to take that responsibility? If his judgment is wrong, he should take the responsibility?—A. Well, Mr. Irvine, he might be quite willing to take the responsibility and he might wreck the bank if his opinion is wrong.

By Hon. Mr. Fielding:

Q. In your judgment, Mr. Clarkson, who would likely be the more competent man, the auditor or the Minister? You need not be afraid of my personal views. I am speaking broadly. Who is more likely to be the competent man?—A. Broadly, what I had in the back of my mind is, that if the Minister had the power to appoint two or three persons, bankers, to go over that question and determine, you would get the best judgment and you would get it free from any error of judgment.

By the Chairman:

Q. That is the Minister would take into his service upon this point any number of people he liked and he would in the end act upon their judgment?—A. Yes, sir.

By Hon. Mr. Fielding:

Q. Then I repeat the question, take it all in all, would that auditor or that Minister, even under the conditions you describe, be the more competent man?—A. I think that if you got the opinion of three bankers say, that you would feel more confidence in relying upon their opinion than you would in relying upon the management of the bank or the auditors of the bank.

Q. Do you think the shareholders would be of that opinion, that the Minister was a better judge than the auditor?—A. I think the shareholders would be satisfied to accept the finding of three competent bankers.

Q. It is not the finding of these bankers, it is the finding of the Minister you are asking?—A. Then suppose I change it and say the Minister may appoint one or more persons who can make that finding.

Q. And they would be final, is that it?—A. Yes.

[Mr. G. T. Clarkson.]

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By Mr. Irvine:

Q. Would that necessarily avoid the possibility of a mistake if a run came on the bank as you anticipate, the blame would be on the Minister instead of on the auditor?—A. It would not avoid the possibility of a mistake, because all human beings can err, but the shareholders would have the satisfaction of knowing that what was done was not done on the sole opinion of an auditor but upon the opinion of one or more persons, or if you like of three, who were competent bankers and competent to judge.

By the Chairman:

Q. Has this suggestion come to you by reason of anything of your own experience? If so perhaps it might help us.—A. I cannot say that it has or has not, but in these times, Mr. Chairman, where you take accounts that are good one day and the next day uncertain, I can very readily see issues can arise that have a very material bearing upon the position of a bank.

By Hon. Mr. Fielding:

Q. What type of men do you think the Minister of Finance should employ to assist him in that case?—A. I would take three members of the Association.

Q. Of the Bankers' Association?—A. Yes, sir.

Q. Might they not be a little biassed in favour of a brother banker?—A. I don't think so, sir. I think they have a very sincere interest in the welfare of all the other banks, and I think their judgment would be fair and reasonable.

By Mr. Mitchell:

Q. Could the Minister not appoint two other chartered accountants on his list, in accordance with the Act and let them act with the regular bank auditors?—A. They could act if it was thought better to appoint accountants.

By Mr. Marler:

Q. Would this really not be a matter of policy and not a question of finding correct figures?—A. It is the policy of appointing an umpire in the case of a difference which I can see would readily arise.

Q. Would not that umpire have to decide more or less on a question of policy and not of figures as to whether a certain amount would be charged to the appropriation or something of that description?—A. That is the question.

Q. Then it is really a question of policy and judgment?—A. Of judgment.

Q. It would not be a question of going over figures again and deciding on them, but a question of deciding on the figures already found whether this or that policy was correct?—A. It is purely a question of judgment and policy.

By Mr. Mitchell:

Q. It is not a question of value?—A. No, of judgment.

By Hon. Mr. Fielding:

Q. Questions of judgment enter into the opinion of the auditors?—A. Certainly.

Q. Would any of these other tribunals you suggest be more competent than the auditor or of more authority on the question? As to the Minister I have a very decided opinion but my modesty prevents me saying anything about him. I defer greatly to your experience and judgment, but do you think the opinion you can get in that way would be better than the opinion of the auditor himself?—A. Yes, sir, I think any auditor is apt to err.

Q. And Ministers err too you know.—A. Well my feeling is that it is unfair, if the management and the auditors come to a deadlock, then the auditor has

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complete power to rule. I think when such a condition comes about that there ought to be the power of reference to some other people so that you can get additional opinions on the subject and be guided by them.

By the Chairman:

Q. If two persons are inflexible, you want an umpire.—A. Yes.

By Mr. Morin:

Q. It is not a question of the investigation of the auditor but the judgment of the auditor as to whether one or two particular accounts are in such serious condition that the bank should provide a large sum from the reserves to take care of it, and the bankers disagree with the auditor, it is a matter of opinion on that account.—A. A matter of opinion as to the value, yes.

By Hon. Mr. Fielding:

Q. On the question of one or two per cent, Mr. Clarkson, do you think this clause has the purpose of bringing specially to the notice of the directors, the large accounts?—A. Yes.

Q. You would only require that report to be made in the case of a large account, representing two per cent?—A. Yes, sir, I feel it would be far more effective in regard to two per cent than in regard to one.

Q. Two per cent would allow the manager of the bank of Montreal to enter into a transaction of \$640,000 without calling the directors in to consult about it. Of course that is an extreme case. Two per cent on the capital of the Bank of Montreal is a pretty large sum.—A. Is its capital 31 million?

Q. 31 millions according to the latest accounts.—A. Or is that the capital and surplus?

Q. No, the capital I think.—A. Then I say if it is 31 millions, I think \$640,000, I do not think that any harm is done in not reporting the loans below that. I feel that if you get down to one per cent you will have so many loans that the very number of them will serve to minimize what you are trying to perform.

By Mr. Good:

Q. You mean less attention would be given to each one if there are a great many?—A. Yes.

The CHAIRMAN: Proceed now, Mr. Clarkson.

The WITNESS: That covers what I have got, Mr. Chairman.

By Mr. Ladner:

Q. There is section 156-A, dealing with persons receiving money on deposit?—A. I have not got any opinion to express on that.

Q. As an auditor you engage in auditing other institutions than banks?—A. Yes.

Q. Your business is not limited to banks and trust companies alone?—A. No, it is not, it is general.

Q. Have you anything to do with the auditing of departmental stores and institutions of that kind?—A. Yes.

Q. This section reads as you will see:—

“Every person who receives money on deposit or receives money for transmission to a foreign country” and so on, “unless a license to receive money on deposit and to receive money for transmission to a foreign country has been granted to such person,” and so on.

Now, just what effect would that have on the business of departmental stores or institutions of that kind? And what suggestions would you make?

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Hon. Mr. FIELDING: That is one of the questions which the department is still holding under consideration, but I will be glad to have Mr. Clarkson's opinion about it.

The WITNESS: I should think any departmental store which took deposits would be perfectly safe in the hands of the department. I cannot believe if you take a large departmental store, that the department would be likely to withhold a license from them.

Hon. Mr. FIELDING: No, the clause as drafted requires a municipal license. That is what Mr. Ladner refers to.

By Mr. Ladner:

Q. As Mr. Fielding says, it requires a license to be granted by the town where the departmental store is doing business, and there would be varying conditions throughout Canada, so the question is whether or not it would be better to have the license controlled by the Finance Department?—A. I would not have the license controlled by the town. I think it would be perfectly fair if the license were controlled by the Finance Department.

By Hon. Mr. Fielding:

Q. As affects departmental stores I agree with you that something should be done, but you would not say you would have no municipal license at all? The design is to prevent people starting financial offices and taking deposits and having no responsibility. Such cases have occurred. The object of the clause is to see that men shall not be allowed to go into that business until the department has some guarantee of their credit and standing in the community.—A. I understood your question was whether the license should be issued from the municipality.

Q. That is what the clause provides and Mr. Ladner called attention very properly to departmental stores which are in a peculiar position.—A. Yes, sir, well, I do not quite get the point yet Mr. Ladner?

By Mr. Ladner:

Q. My point was that this section states that the license shall be granted to such persons by the city, town or other municipal division in which he carries on business; I wanted to get your opinion as to whether in your experience as an auditor it would be wiser to have this license granted straight from the Finance Department, so that there would be a consistency in policy and in precedent in order that these institutions would not be mixed up and embarrassed by municipal politics, which in some places will make it rather awkward for the institutions?—A. I will answer it this way: the idea of getting a license from a municipality does not appeal to me at all, at the same time I can readily see that the department might object to having to take control of these things itself by way of issuing licenses, because if the department were to issue licenses and then a failure takes place it might have trouble from that source; otherwise I think it would be far preferable to have the department control it by issuing the license itself.

By Hon. Mr. Fielding:

Q. In the case of departmental stores that might be an easy proposition, but what would you say with regard to operations in distant parts of Canada that they had to come to the Department of Finance?—A. I think it would be very embarrassing to you because there would be great difficulty in determining whether you should give them a license or not; they are away off.

[Mr. G. T. Clarkson.]

Mr. LADNER: Just on this point the Committee would be interested in learning from Mr. Fielding if it is not the intention to modify the words of that clause.

Hon. Mr. FIELDING: In the case of people engaging in banking business, receiving deposits, something is necessary to put a check upon these people who open finance offices in various parts of the country and call themselves by some financial name and burst up a year afterwards; that is the object, to try to cure that if we can.

The CHAIRMAN: Mr. Clarkson has proposed quite a number of amendments, and I would like to know if you would like to have them put upon the order paper in order that we may consider them later.

Mr. MITCHELL: It seems to me the suggestions made by Mr. Clarkson are very valuable indeed.

The CHAIRMAN: Mr. Ryckman, would you allow them to be put in your name?

Hon. Mr. FIELDING: If the Committee desire them there is no reason why they should not be put as Mr. Clarkson's suggestions.

Mr. RYCKMAN: I would be very glad to move that the amendments suggested by Mr. Clarkson be embodied in our minutes upon the order paper.

Mr. MARLER: Before the witness leaves the stand I think it would be only proper for me to suggest to you and the Committee that as these amendments have been suggested by Mr. Clarkson, and certain other amendments also have been suggested by the Chartered Accountants' Association of Montreal, when these clauses come up for definite discussion and definite decision, it would be exceedingly advisable to have Mr. Clarkson here and also another accountant of standing from Montreal, because there are very many questions that are certainly of a most intricate nature. I have had the advantage of in part studying the amendments which the Finance Minister has suggested; certain amendments would bear further consideration, and for that reason, I suggest that some time should be set when these gentlemen could reappear, if it is the desire of the Committee to have them reappear. I think it would be of the utmost advantage to the Committee as a whole.

The CHAIRMAN: Yes, when we reach the sections we cannot fix a date—

Mr. MARLER: I quite realize that, but would it be possible say to give two days' notice before these particular contentious clauses are taken up, so that an arrangement could be made with Mr. Clarkson and with another gentleman of the same profession from Montreal to be here?

The CHAIRMAN: I would think so, Mr. Marler.

Mr. MARLER: If we can leave it that way it will be quite satisfactory.

By Mr. Mitchell:

Q. May I ask a question: Mr. Clarkson, in connection with a difference between the auditor and the management that you spoke of a little while ago and the reference to some Board of arbiters which should be appointed by the Finance Minister, supposing that that system should be adopted and the arbiters appointed by the Finance Minister should finally decide, would that not go to relieve to a great extent the responsibility of both the auditors and the management for something that they are primarily responsible for?—A. Well, if an issue arises between the auditors and the management, which is a clean-cut issue and the umpires make a finding in respect of it, then my intention was that both the management and the auditor should be bound by that finding.

Q. Yes, but that would tend to relieve the management (let us leave out the auditors for the moment) would relieve the management from a responsibility

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that is primarily theirs?—A. I do not mean that; I mean only for the purpose of the statement, that is all.

Q. But if it went in any way beyond that it would have that effect?—A. It might, but all I mean is this: you are faced at the end of the year with a necessity of certifying to a statement, and the auditor says one thing and the management says another, it is based on opinion and judgment; the management may be wrong and the auditor may be right, or the management right and the auditor wrong. For the purpose of that statement only I was asking that a Board be appointed and its findings be final and binding for that statement and nothing more.

Q. Supposing even though there was a mistake and some bad results should occur to that institution then the final responsibility would be thrown upon the Minister who made the appointment?—A. There is that objection; you cannot get away from it.

Q. And then there is another thing, that might extend to an extent that would make the returns which would be made by the President and General Manager which are based upon the final statement that is submitted to the shareholders, it might go to such an extent that the report that was finally made by the President or the General Manager to the Finance Minister would be based upon a statement which had been settled by arbiters appointed by the Minister of Finance—It is possible?—A. Yes, it is possible; it is a question of judgment.

By Hon. Mr. Fielding:

Q. If there were a number of these cases there would be considerable delay in the completion of the audit?—A. There cannot be delay because you are bound down to time; you have to call the meeting of shareholders within a certain time. There is no long period of delay possible.

Hon. Mr. FIELDING: All possible delays occur at Ottawa.

By Mr. Marler:

Q. Just one other question that occurs to me, I don't know whether it is germane or not; under this dual system of auditors, having two auditors, there is a possibility of disagreement between those two auditors?—A. There is a possibility, but one of the auditors is bound to be stronger than the other, and a disagreement like that the man with the stronger opinion his conviction will carry.

Q. There is no good bringing it up?—A. I would not argue it; that is what will happen.

By Mr. Mitchell:

Q. Human nature is human nature everywhere?—A. Yes.

Witness retired.

The following memorandum was filed by Mr. Clarkson.

SUGGESTED AMENDMENTS AND ADDITIONS

Re ANNUAL AND SPECIAL STATEMENTS

Section 54.—Amend to read:—

- Item "m" of liabilities to read "Contingent Reserves."
- Item "n" of liabilities to read "Undistributed profits."
- Item "q" of assets—eliminate entirely.

[Mr. G. T. Clarkson.]

*Re SHAREHOLDERS' AUDIT**Section 56.**Subsection 1.—Amend to read:*

"The affairs of the bank shall be audited by two persons who shall be chartered accountants residing in Canada who have for at least six years preceding the date of their appointment, as hereinafter provided, bona fide practised their profession as public accountants in any city in Canada."

Subsection 6.—Amend to read:—

"The shareholders shall at each annual meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank",

or in the alternative—

"The shareholders shall at each annual general meeting appoint two persons, not members of one firm, whose names are included in the last published list, to audit the affairs of the bank. The two persons so appointed, including any member or members of their respective firms who may be appointed in the place of either of them, shall not continue jointly with one another to audit the affairs of the bank for a period of more than five years in succession without an interval of at least five years during which time another person or persons shall have audited the affairs of the bank in the stead and place of one of such persons."

Subsection 8.—Amend to read:—

"The remuneration of the auditors shall be fixed by the shareholders at the time of their appointment, and in the event of a vacancy and the appointment of another auditor under the preceding subsection, the remuneration so fixed shall be divided in such manner as may be agreed upon between the auditors."

Subsection 11.—Amend to read:—

"It shall be the duty of the auditors from time to time as the same shall come to their attention to report in writing to the general manager and directors,—

"1. Any transactions and conditions affecting the wellbeing of the bank which in their opinion need rectification.

"2. Upon any loans and investments exceeding two per cent of the paid up capital of the bank which in their judgment require special consideration and attention.

"The report so to be made shall be transmitted or delivered by the auditors to the general manager at his office and with such transmission or delivery the auditors shall notify each director by registered letter, post prepaid, addressed to his last known post office address that they had made such a report and have delivered the same to the general manager for the inspection and consideration of the members of the board of directors."

Subsection 11A.—Insert new subsection as follows:—

"If any of the conditions or matters in the preceding subsection, provided to be reported, shall have been specifically notified to any regular meeting of the board of directors held prior to the time when such conditions or matters came to the attention and notice of the auditors, and in such manner as in the judgment of the auditors reasonably set forth and exhibited the facts in respect thereof, then the auditors shall stand relieved from any obligation to report the same to the directors as hereinbefore provided for."

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Subsection 11-B.—Add new subsection as follows:—

“The auditors shall not less frequently than once in every six months (and more often if the board of directors shall so require) prepare lists and statements from the branch and agency reports and returns and the books of the bank of all loans and investments (excluding bank premises) exceeding two per cent of the paid up capital of the bank as on the last juridical day of the month last preceding the date of such lists and statements, and such lists and statements shall be delivered by the auditors to the meeting of the board of directors which shall next follow the date of their completion.”

Subsection 11-C.—Add new subsection as follows:—

“The Auditors shall not less frequently than once in every six months (and more often if the Board of Directors shall so require) check the loans, discounts and investments of the Bank exceeding two per cent of the paid-up capital of the Bank as shown by the branch and agency returns and the books of the Bank against the credits and authorizations approved and given by the Board of Directors in respect thereto. The auditors shall with each such checking report in writing to the Board of Directors all such loans, discounts and investments as have been made without the approval of the Board.”

Subsection 11-D.—Insert new subsection as follows:—

“It shall be the duty of the auditors, and within one month after the date of completion of the same, to report to the Board of Directors in writing upon their audit of the affairs of the Bank and upon all matters affecting the wellbeing of the Bank which in their opinion need rectification. The Auditors shall at such time also report in writing to the Board of Directors upon all loans and investments exceeding two per cent of the paid-up capital of the Bank which in their opinion require special consideration and attention. Such report shall be delivered or transmitted by the Auditors to the President or a Vice-President and the General Manager of the Bank, and thereafter the Auditors shall appear in person before a meeting of the Board of Directors to be called and held for the purpose, when the report of the Auditors shall be read and the Directors shall make such inquiries as to the steps taken by the Auditors in the performance of their duties as to the Directors shall seem necessary or advisable.”

Subsection 11-E.—Insert to incorporate section 56, subsection 19, of old Act:—

“It shall be the duty of the Auditors once at least during their term of office, in addition to such checking and verification as may be necessary for their report upon the statement submitted to the shareholders under section 54 of this Act and at a different time to check the cash and verify the securities of the Bank at the Chief Office of the Bank against the entries in regard thereto in the books of the Bank and should they deem it advisable to check and verify in the same manner the cash and securities at any branch or agency.”

Subsection 11-F.—Insert new subsection as follows:—

“If having regard to the report to be made to the shareholders under the subsection hereinafter following any dispute or differences of opinion shall arise between the Directors or Officers of the Bank and the Auditors, or either of them, as to any matter whatsoever, then any of such persons may refer the matters at issue to the Minister who shall investigate and

determine the issue and the finding of the Minister shall be final and conclusive and shall be binding upon all parties and shall be adopted by them for the purposes of the report to be made."

Subsection 12.—Amend to read as follows:—

"The auditors shall make a report to the shareholders on the statement of the affairs of the Bank to be submitted by the Directors to the shareholders under section 54 of this Act during their tenure of office; and the report shall state,—

"(a) Whether or not they have obtained all the information and explanations they have required;

"(b) Whether in their opinion the transactions of the Bank which have come under their notice have been within the powers of the Bank;

"(c) Whether their checking of cash and verification of securities required by subsection 11-E of this Section agreed with the entries of the Bank in regard thereto;

"(d) Whether in their opinion the statement referred to in the report discloses the true condition of the Bank;

"(e) Whether the statement is as shown by the books of the Bank."

Subsection 12-A.—Insert to incorporate section 56, subsection 18, of old Act:—

"If a Bank has agencies or branches it shall be sufficient for all the purposes of item (e) of the preceding subsection if the Auditors are allowed access to the returns, reports and statements and to such copies of extracts from the books and accounts of any such branch or agency as have been transmitted to the Chief Office but the Auditors may in their discretion visit any branch or agency for the purpose of examining the books and accounts, cash, securities, documents and vouchers at the branch or agency."

Subsection 16.—Amend to read as follows:—

"A Director or Officer of the Bank shall not be capable of being appointed Auditor of the Bank."

RETURNS

Section 113.

Subsection 1.—Amend to read as follows:—

"Every return provided for or required under the last preceding section shall be accompanied by declarations which shall be in form set forth in Schedule "G" of this Act and shall be signed by the Chief Accountant or by the acting Chief Accountant and by the President or a Vice-President or the director acting as president and by the general manager or other principal officer of the bank next in authority in the management of the affairs of the bank at the time which the declaration is signed and such returns shall be deemed to have been prepared, approved and concurred in by the persons who have signed the same to the extents to which they are or should be informed with the proper performance by them of their duties."

Subsection 4.—Amend to read as follows:—

"Notwithstanding anything in the preceding section contained it shall not, except as to the Chief Accountant or acting Chief Accountant, be sufficient for the purpose of any return provided for or required under the said section that such return agrees with the books of the bank, but

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the returns shall set forth the true financial position of the bank on the last juridical day of the month last preceding the date of the return according to the books of the bank and to the latest information possessed by or reasonably available, with the proper performance of their duties, to each of the officers who signs the return."

Subsection 5.—*re* Overdue debts.—Eliminate this in entirety.

Subsection 7.—Eliminate the words "or other assets" in line 2 on page 57 of Act.

Subsection 8.—Amend to read as follows:—

"For the purposes of any statement provided for under Section 54, and of any return provided for or required under the last preceding section the 'Appropriation Account' of a bank shall be the total amount estimated or ascertained to be necessary to provide for losses due to any cause whatsoever according to the latest information which can be made available therefor and such an amount in addition thereto but which shall not exceed five per cent of the loans and discounts of the bank as shall be held by the bank against unknown and unascertained losses. The Appropriation Account shall be applied in reduction of the amounts of the loans, discounts and investments of the bank and the net amounts thereof after such deduction shall be included and shown in the statements and returns as aforesaid to be made by the bank."

Subsection 9.—New subsection to read as follows:—

"For the purposes of any statement to be made under Section 54 of this Act and of any return provided for or required to be made under the last preceding section, the Contingent Reserves of the bank shall be the total amount retained by the bank in excess of Appropriation Account and the capital rest or reserve funds to provide for unknown and unascertained losses."

Section 153.

Subsection 3.—Amend to read as follows:—

"Every President, Vice-President, Director, Auditor, General Manager or other officer of the bank who knowingly prepares, signs, approves or concurs in any return respecting the affairs of the bank provided for or required by Section 112 of this Act which does not set forth the true financial position of the bank on the last juridical day of the month last preceding the date of the return according to the books of the bank and to the latest information possessed by or reasonably available, with the proper performance of their duties, to each of the said officers respectively, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case prescribed therefor, by imprisonment for a term not exceeding three years."

Schedule "G," page 82.—Amend as follows:—

Liabilities—

Item 16—strike out words "Appropriation Account" and insert words "Contingent reserves";

Item 17—strike out words "Contingent reserves including" and leave to read "Undistributed profits".

Assets—

Item 20—"Overdue debts"—eliminate in entirety.

The CHAIRMAN: At the close of our morning session Mr. Good asked that an opportunity be given Mr. Bevington for ten or fifteen minutes to make some statement. We are through with Mr. Clarkson now, and, if the Committee is agreeable to that, we might hear Mr. Bevington now.

Mr. MITCHELL: We might as well hear Mr. Bevington's statement now.

The CHAIRMAN: Mr. Edwards will appear before the committee to-morrow morning, and I would like to see as large an attendance as possible. He will cover practically the same ground, I presume, as has been covered by Mr. Clarkson. Mr. Fielding's proposed amendments which were submitted to the Committee this morning will be distributed before 8 o'clock this evening. Members will find them in their post office box in printed form. Now, Mr. Bevington, will you come forward.

GEORGE BEVINGTON, recalled.

The CHAIRMAN: Proceed with your statement, please.

WITNESS: Mr. Chairman and members of the Committee: I do not wish to take up much of your time here just now. In the previous sessions of this Committee I was asked to present you with a statement dealing with this question that you are investigating, the basis of credit, function of credit, control of credit, and our banking system. The scope of that inquiry or investigation is so large that it was very difficult for me to undertake to present that in possibly the best form that it might have been presented; however, I undertook to do that in the best way I could. Whether that has entirely met with your approval or not, it is for you to decide. The position I took at the commencement of the inquiry was simply this, that our present banking and credit system was not adequate to meet the requirements of the country. I tried to show in what particulars I felt that it did not meet the requirements, nor could not. I have listened to several witnesses on this stand during the past week, or ten days, both bankers and economists, and throughout the whole inquiry I did not hear advanced any information or arguments that would cause me to change my mind in any degree, in fact there was very much produced that would confirm the conviction that I held when I came here. I want to just briefly touch upon some of the points that have been raised and brought out. Starting first with the position taken by our bankers, the statement of the bankers briefly stated is this, that they have done everything in their power and have been prepared to do all that was required of them to do to meet the situation that we find to-day. Now, if we accept that as a truthful statement, then surely I think everybody will at least admit that we are in a pretty bad situation. I do not think there ever was a time, and I have been in Canada for over thirty years, when Canada was suffering as she is at the present time industrially. If our present system is not capable of meeting that situation, then surely it is for us to consider what may be done. Several of the bankers were asked if they had any suggestions to offer, any improvements in the system to offer; the representatives of the great banks all said no, we have got as good a system as man could devise and we are satisfied that it is capable of meeting all the requirements. They had nothing to offer.

There were two that took a little different attitude, and suggested something by way of remedy. One at least admitted that here was a field that was not covered, and made a suggestion as to how it might be done. Another did not know whether there was any field that was not covered or not, but if there was he would suggest a certain thing might be done. In each case, the selling of bonds for the purpose of raising money to meet that particular need.

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The position of the bankers, to my mind, has been rather an absurd position. They have said, in effect, that if you undertook to adopt any other kind of system, or if the people through their elected representative bodies, in any way undertook to adopt any kind of system for extension of credit, that it would fail. That is a very ambiguous statement, to my mind. The people of the country elect representatives to carry on the greatest business in the country. There is no business in the country that is of such great importance and so big as the business of running the Government. And we have found, or we think we have found, men capable of running the Government, the biggest business that we have. But our bankers apparently take the attitude that although we are capable of running a Government, we are not capable of running a money system; that that must be left to somebody other than the representatives of the people. That may be true. I am not going to say that it is not true. But if it is true, it is quite a reflection on those who represent the people.

Now we have had some very eminent economists before the Committee. We have had two men, other than myself, who have offered a suggestion of remedy. Each of those two men have proposed a particular scheme, designed to do finally, exactly the same thing. I have presented one myself, also with that same object in view. Every one has admitted that our great trouble is purchasing power. We have not a sufficient volume of purchasing power available to meet the requirements, or to purchase the goods of to-day that are ready for consumption; while, at the same time, we have a consuming demand unsupplied with goods. All agree on that point. Yet different suggestions as to how we can arrive at that solution, how we can supply that necessary purchasing power. Mr. Douglas would treat it in one way. Mr. Fisher treat it in another way. I would treat it in another way. These are merely different plans to accomplish the one object. Now, I am not going into detail, as to the plans offered by Major Douglas and Professor Fisher, but I would like for a moment to take up one or two points in connection with the proposals I made myself.

We found that when we had a national crisis, our present system hopelessly failed, and we had to resort to what people always have had to resort to, to meet that particular crisis. We had to resort to the use of the public credit. We had to put that public credit behind the system that we had established to do our ordinary business, when we came to a crisis, and then we went right on and continued to move without any trouble and solved our problem in that way. Now, that was a political crisis, and we say it was justified because of the great necessity to maintain our national identity and I might say our Imperial identity.

To-day, we are facing the greatest industrial crisis that the world has ever known. We find that that great industrial crisis all over the world has been brought on or is on at the present time, because of shortage of purchasing power. All nations are trying to remedy that situation. Then again I say, that being the case, it is in the interest of the nation that national credit again should be invoked to meet the crisis. We should continue to use the thing that we have found so effective in meeting the crisis. I do not want to go into the details as to why that is necessary, because people's views are not alike by any means on that subject. But we can at least agree that there is a crisis that must be met.

Now, the proposal I made to you was simply this, that we continue to use the thing that pulled us through our political crisis: use the national credit: use it in the interests of the nation. Simply devise a plan whereby we can use and control that credit in the interests of the nation. If we do that, I do not think there is any trouble at all about getting over this difficulty. I think that that necessary amount of purchasing power can be found; and can be found very safely without disturbing the present system as it is constituted; without dis-

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turbing if you like, the gold basis; without disturbing our banking institutions as they are established; without disturbing any of our industrial institutions. Simply adopting the plan to meet the needs and continuing under that plan.

Now two criticisms have been levelled at the proposition. Two that should be considered criticisms and only two. One is that to adopt that plan would bring into use "fiat" money. Well, we have had professors here who have said that we have not got anything else but fiat money now. We have had bankers who have admitted that we have a considerable amount of fiat money. We have had some who have said we have not any now. So there is a great difference of opinion as to what we are doing business with at the present time; but whatever it may be, it at least is functioning. The abhorrence of fiat money apparently is that people would not have confidence in it. Well, when this crisis came, we did not have fiat money; we will say we had a gold basis money; but confidence faded away right at once. And what has restored confidence? Why fiat money. Immediately the Finance Act was passed, confidence was restored. So we restored confidence with fiat money? Or national credit? National credit is what did it. It was not fiat money at all. It was the only kind of money that any nation ever can pull through a crisis with, or ever has or ever will.

Now I have not offered a suggestion that we change from the system or the base that now exists. Simply establishing another institution on that very same base to go ahead and meet the requirements of the country. Consequently, if we have no fiat money now, we would not have any fiat money after this plan was adopted. If we have fiat money now, then we would have the same kind continuing; or we would have the gold basis, to the same extent we have it now or we could increase it if we thought it necessary; we could do any of these things.

By the Chairman:

Q. That all depends on the kind of security that you would get into your bank.—A. Our bankers have said that they were perfectly prepared to meet all of the requirements in so far as money was concerned, if the securities offered were acceptable. Now we are simply providing a way of finding out what are acceptable securities.

Q. Mr. Bevington, I would say of the three schemes yours is the most practical, although I do not believe in it, I frankly confess, and you do not need to be annoyed by that.—A. There have been sudden conversions, Mr. Chairman?

Q. Mr. Douglas I think frequently stated that he did not expect an immediate adoption of his scheme; he was more of a crusader, spreading a new gospel, which he hoped someone would accept some day soon. And Mr. Fisher was so frank as to say that he thought the Genoa suggestion was better than his own. There is that much to be said for yours that you do come somewhere within the region of the practical, but I think it falls down myself.—A. Then there is the other point of inflation. When we speak of inflation people's minds at once jump to inflation of money. That has been offered as a criticism of this proposal that we would have inflation. Now we would not have any inflation of money under that system, any more than we have it at the present time. Would the organization of another bank privately owned, be inflation? Because another bank came into existence under the Act as it stands to-day? Would that necessarily mean inflation? Inflation only comes about by inflating purchasing power through the extension of credit. Inflation does not come about by organizing another bank. The banks at the present time, as at present constituted, only do four per cent of their business with money, and there are some of them have said they might get along very well without money at all, if people only had confidence in the institution. Consequently there would be one person depositing his securities and checking against them, and another person doing

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likewise. At the present time there is no limit to which a bank may make loans, and thereby cause checking accounts or deposits. It is entirely within their control then, whether they inflate purchasing power or deflate purchasing power.

That is the point on which I take issue with our present system. I think that is too much power to be left in the hands of any few men uncontrolled. I think it is in the interest of the people that the people themselves should undertake to control the amount of circulating medium that can be put into circulation as purchasing power through that process of making loans, and receiving deposits and circulating that by the cheque book. That is entirely bank created, and it functions in exactly the same way as money, and it will inflate purchasing power, or the withholding of that credit extension will deflate.

Now if inflation has taken place under our present system, it is in that way that it has taken place. At once we found that that kind of money increased one billion dollars or a little better than one billion dollars in a very few years. Again we found that deflation has called out of circulation in $2\frac{1}{2}$ years almost 500 millions of that kind of money, with the consequent results that we see to-day. Now that is where inflation takes place. If there was inflation of money, it was only to the extent of four per cent of what took place by these other extensions of credit. Now we have that and we will have that with any kind of bank that is organized under the present Act. To my mind we should organize an institution where greater regulation could be maintained than can now be maintained under the present system.

By the Chairman:

Q. I would like to ask you, so that I may have your scheme a little clearer in my mind; what would be deposited with the bank here, the Finance Department, if your Provincial Bank wanted to rediscount? What would be the nature of the security? I am taking a branch say in your own country, one of the units in your own province?—A. I could only answer that by what has taken place in the past.

Q. No, I do not see how that can be. Supposing you started a bank in a country district, a local unit with a clientele of agriculturists or lumbermen, whose notes would run for a long time, and they could not give you a security that was realizable or could be realized upon quickly.—A. A municipality could organize themselves into a credit unit.

Q. What would they have to give to the Provincial Bank?—A. They would have their municipal bonds, and those are acceptable by the Treasury Board at the present time.

Q. What consideration would they get for their bonds?—A. Those bonds would go to the Provincial unit, the bank that has the right of issue, sell it to the Provincial bank; the Provincial bank could bring it to the Central Treasury Board and get Dominion notes in the same way as it has done at the present time.

By Mr. Mitchell:

Q. What would the municipality originally issue those bonds for?—A. I presume for the same purposes that they had been issuing them in the past.

Q. What have they been issuing them for in the past?—A. Various things. Whatever they need to spend money for. Improvements of any kind.

By Mr. Carmichael:

Q. What would be the maximum of issue allowable to the local units?—A. I could not say that. That would have to be fixed by legislation. That is a matter of control. The whole thing is a matter of control. I could not say

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what measure of control you would be willing as legislators to enact, but you can imagine yourselves probably as well as I what measures would be necessary to enact to provide efficient control.

By the Chairman:

Q. But your unit bank would authorize a loan on something. How could it be municipal bonds unless the municipality happened to be the borrower in that case?—A. The municipality could issue its bonds, and if it wished it could loan the money out to whoever it liked, as it has been done in many instances.

Q. Do you think a municipality could sell bonds, the proceeds of which they were going to loan out to people?—A. Yes.

Q. What municipality could do that?—A. The municipality of Edmonton has financed three or four of the largest blocks in the town, to the extent of hundreds of thousands of dollars.

Q. That was to carry out a public work?—A. No, it is not. It is private buildings.

Q. They will suffer by that then if they have not yet?—A. I will give you two instances and you can make the inquiry if you like. The McLeod block, about the finest block in the city of Edmonton. Also another block, an eight storey building, the next finest block in Edmonton.

Q. The municipality built it for their own use?—A. No, it is a private office building of Mr. McLeod, and they lent him \$600,000 to build that block.

Q. Do you think that is a good thing?—A. I do not know whether it is a good thing or not. I am telling you what has been done.

By Mr. Mitchell:

Q. Is that your system?—A. No, that is not my system at all. I am just telling you what has been done.

The CHAIRMAN: Do you know anything of that Mr. Kellner. Had that to be done to save some properties?

Mr. KELLNER: No, I am not familiar with the deal at all. I have heard such a thing was done, I do not know why.

Mr. BEVINGTON: I was going to mention a man's name, he is a Senator; at that time I think he was Mayor or in some important position, and he thought it would be a good thing for the city of Edmonton to create a sinking fund. In order to do that they borrowed money on bonds, to create a sinking fund. Then they loaned this money to provide individuals with money to build these buildings in Edmonton, at a higher rate of interest than they sold their bonds for to create this fund.

The CHAIRMAN: That is, they went into the banking business really?

By Mr. Mitchell:

Q. What would happen if the owner of the building defaulted, in the payment of the amount due the municipality?—A. The fact of the matter is that to a certain extent, that has happened, and the city is collecting the rents on the buildings now and applying and doing very well.

By Mr. Hughes:

Q. What would happen if the property depreciated in value?—A. It would become the property of the city.

Q. It would become a liability?—A. It would become the property of the city and the man who built the premises would lose.

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Q. The transaction would entail a loss on the city?—A. I don't think it would.

Q. If the property depreciated?—A. No, not at all.

Mr. MITCHELL: It would if they could not rent it.

By the Chairman:

Q. One more question. Do you think it is fair to call our paper currency to-day, these Dominion notes, pure fiat money? It can be redeemed at a discount?—A. Well, Mr. Chairman, I have not called it anything. I have simply undertaken to describe as nearly as I can what it does. You can call it for yourself what you like. I call it credit instruments based on the nation's assets. That is my definition of what it is; national credit circulating and functioning as money.

By Mr. Mitchell:

Q. Mr. Bevington, did you say in your examination in chief, when you made your first statement that there was only a certain percentage of it that you considered fiat money?—A. No, I never made any statement as to what portion of it, or any portion of it, I considered fiat money.

Q. You said a certain proportion?—A. No, I have stated no proportion, at no time. I said there was 26 million dollars had got out of the treasury directly without having to go through the banks. That ten millions had got out to meet expenses of Government in various ways. That 16 millions had got out against Canadian National Railway and Grand Trunk securities and had been taken over with the roads. I never undertook to say what kind of money it was any further than that it was Dominion notes based on the credit of Canada.

Now, I do not wish to take up any more of your time, but just in closing I want to thank the Committee for the interest they have shown and the courtesy with which they have received my statements. I hope that at least I have helped to some small degree to clarify the subject, and I further hope that something may come out of this that will relieve the situation that we now find in Canada and work out to the best interests of the whole country.

The CHAIRMAN: I have already expressed our appreciation of Mr. Bevington's attendance before the Committee, and for the information he has given us, and I can only repeat that.

Mr. MITCHELL: Mr. Chairman, I think we should pass a vote of thanks to Professor Shortt who was here yesterday. I think we forgot to do that last night. I would like to move that.

The CHAIRMAN: Very well, that is carried. We will adjourn until 11 o'clock to-morrow.

The Committee adjourned at 6.10 p.m., until 11 a.m. Friday, 4th May, 1923.

FRIDAY, May 4, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m., Friday, May 4, 1923, the Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Are there any motions? I should like to suggest that if any member of the Committee has any amendments in mind to propose they should be submitted almost immediately, so that they can be printed and put on the Order paper.

[Mr. G. Bevington.]

Hon. Mr. STEVENS: You are referring to the Bank Act of course?

The CHAIRMAN: Yes.

Hon. Mr. STEVENS: I am not rising to give notice of a motion, Mr. Chairman, but to read a telegram received from the Institute of Chartered Accountants of British Columbia. I may say that this is a well established and old institute. As a matter of fact I think about 22 years ago I was one of those who really started this Institute, although I am not now, at the present time, a member; not practising. It is addressed to the Chairman of the Banking Committee and to myself.

"Having considered the proposed amendments to the audit sections of the Bank Act, comprised in section 56 this Institute supports Montreal and sister Institutes in their objections to certain of the proposed amendments. We particularly recommend deletion from proposed subsection one of section 56 of the following words: "In which there is located the chief office of a bank." We also recommend that subsection 18 of section 56 of the Bank Act be not repealed. We further strongly recommend the withdrawal of new proposed amendment subsection 16 of section 56."

Signed,

THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF BRITISH COLUMBIA.

I desire to put that on record for consideration when these clauses come up.

Hon. Mr. FIELDING: So far as the first portion of that is concerned, Mr. Stevens, it is already covered by an amendment here.

Hon. Mr. STEVENS: Yes, I understand that Mr. Fielding.

The CHAIRMAN: Gentlemen, we will be addressed this morning by Mr. George Edwards, of Toronto. He will address the Committee first in general terms, after which he will be available to the Committee for questions.

GEORGE EDWARDS called.

Mr. Chairman, and Gentlemen: My occupation being that of Chartered Accountant, the views I have to offer to the Committee upon Bill No. 83 "An Act respecting Banks and Banking," have special reference to the proposals which relate to statements, returns and shareholders' audit. To some extent these views have been formed upon conditions ascertained to exist in the Merchants Bank, which I investigated under the instructions of the Honourable the Minister of Finance, but they are in part also the result of long study of relationships subsisting between the members of my profession and their clients, and the standards of competency and conduct in a professional sense, which entitles them, as a class, to public confidence.

I am above all things anxious that my profession shall perform worthily its part in the general plan, which is to give dependable assurances to the public respecting the true financial condition of the Canadian chartered banks. If in the course of stating my views I seem to reflect in the slightest degree upon the integrity or good faith of either the banker or the bank auditor, I shall ask indulgence, because no other purpose is in my mind than to discover how most effectively such assurances may be given.

I desire to draw a distinction between statements issued by a bank to the public—and in particular the annual statements prescribed in section 54—and returns made by a bank to the Minister under Section 112 and sections following. While I have no personal knowledge of the circumstances under which the

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monthly returns from a bank come to be required, they have the appearance of having been originally intended to furnish information of statistical value, the various categories not presenting throughout the usual characteristics of a balance sheet intended for public reading. An annual bank statement, in order to tell its story to the shareholders at a glance, should be in more condensed form and the material judiciously grouped, to conform with the well-recognized type of balance sheet usually submitted by other corporations at their annual meetings. It is not desirable therefore, or hardly possible, to adopt the same classifications of the assets and the liabilities of a bank for both the Annual Statement and the Monthly Return. Previous to 1913, the form of Annual Statement called for by the Act was a very simple affair, but in my opinion quite ample, as it permitted some scope to the bank's officers in the matter of arrangement, and the exercise of their individual judgment in presenting the essential facts to the shareholders. If the added requirements, dating from 1913, were acceptable to the banks, there will be no need now to consider a less detailed classification, but it seems hardly necessary, having regard to the purpose of the annual statement, to further classify it by insisting that a bank shall show items (*m*) and (*n*) on the liability side of the statement. It may be observed that items (*d*) and (*n*) to some extent refer to the same thing. The amendment to item (*l*) is obviously a desirable one as it requires the disclosure of the total of the bank's probable commitments in the matter of Letters of Credit, but the bank should be permitted the option of showing this item and the corresponding item (*o*) on the asset side, as a foot note to the balance sheet, in conformity with well settled practice in stating liabilities of an indirect or contingent character.

Item (*q*) "overdue debts" on the asset side of the balance sheet, is in my opinion an unfortunate expression, likely to set up difficulties in classification. Bankers contend quite properly that bills temporarily overdue, provided the conditions are such that the borrower might expect to renew the obligation, ought not to be classified as overdue debts. Where, however, the bank would not as a matter of sound banking policy renew the bill, it would by its nature be no longer a "current loan," and the proper designation for this class of obligation would be "non-current loans" or "loans in liquidation." Under either of the suggested headings, such transactions in a Bank Statement call for segregation, and whether painful or not to the bank, it is vital to an appreciation of the bank's true financial condition, liquid or otherwise, that such conditions should be known. Unless specially exempted by statute, no bank auditor could afford to be a party to any statement of the affairs of a bank which failed to disclose the position of the bank with respect to such loans. My opinion is therefore that the classification should be retained, but under one or other of the alternative headings suggested.

By the Chairman:

Q. What items?—A. Non-current loans.

Q. What else?—A. I suggested also "loans in liquidation."

By Hon. Mr. Fielding:

Q. Your comment has been made on the Bill as it was introduced?—A. Precisely.

Q. And some of these points are covered by amendments?—A. Some of them are already taken up by your amendments.

By the Chairman:

Q. Is there any difference between non-current and overdue debts in the mind of the casual observer—I don't mean in the mind of the accountant

[Mr. Geo. Edwards.]

or perhaps of this Committee, but in the eyes of the public generally?—A. I think the impression created by the words "Current Loan" is that of a loan which is still a good banking loan, a loan which would be renewed by the bankers if the bankers had an application for it; "Non-Current Loans," loans which have ceased to be good banking loans according to standard banking practice.

Mr. Forgan, an eminent Chicago banker, who gave evidence before the Banking Committee in 1913 referring to this class of business made the following statement:—

"Mismanagement has the unfortunate faculty of accumulating business which good management discards. Under good management desirable business is the rule and undesirable business the exception. Under mismanagement the case becomes exactly reversed, the accumulation of bad business fairly smothers out the good."

It is to reveal to the shareholders in good time tendencies of this description, that the separate classification of "Non-current Loans" or "Loans in Liquidation" serves a useful and perhaps vital purpose.

I make that observation because in the evidence given before the Committee there has been a recommendation that all the loans of a bank should appear under one classification.

By Mr. Good:

Q. You simply recommend a change of the wording under section (q)?
—A. Yes.

By Hon. Mr. Fielding:

Q. Of the heading?—A. Of the heading. Other considerations arise when the form of the monthly returns under Section 112 comes to be determined. It is a monthly return. It is for the information and use, if need be, of the Minister. There is no prescription in the Bank Act that such returns should be published, in the *Canada Gazette* or otherwise. It has been customary to tabulate and publish these returns in the *Gazette*, but certain other returns also required by the Act are not so published. If the publication is the detail which gives to the new classifications in Schedule G these objectionable features, it would be in the discretion of the Minister, I think, to determine the extent to which publication would be in the public interest, but at the same time the Minister would not be without information of great value for the purpose of facilitating further inquiry under subsection 10 of Section 56, or under Section 56A, or under subsection 4 of Section 112. Those subsections are the subsections which give the Minister discretionary authority to require further information.

By Hon. Mr. Stevens:

Q. Do you think they ought to be published?—A. In the Minister's discretion only.

By the Chairman:

Q. You are not expressing an opinion yourself as to whether the monthly statement should be published in detail, are you?—A. I am expressing the opinion that there may be information required of the banks by the Minister which it may not be wholly desirable to publish verbatim.

Q. Under section 112?—A. Yes.

Q. Which is the monthly return?—A. Yes. The value of the further information called for in Schedule G is demonstrable from the Merchants Bank case. Subsections 4, 5, 6, 7 and 8 of section 113 also reflect, and are doubtless intended to guard against the conditions found to exist in the Merchants Bank.

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While clause (a) of subsection 5 presents some difficulties, it is nevertheless the case that without some reasonable limitations in the Act to govern the classification of loans which, while not coming within clauses (b), (c) or (d), are quite as evidently on the facts "non-current," undesirable business may accumulate without the knowledge of the directors and shareholders, and the story of the Merchants Bank may repeat itself. I have already offered the view that non-current loans should appear apart, and it follows, I think, that my further view would be that there should be some statutory definition which would help the banks to a common understanding of what such classification really means. With such assistance, the bank auditors would also be better able to fulfill the duties expected of them. A reasonable extension of the twelve months' limit would not unduly impair the value of clause (a). I have not thought it wise to give examples of the application of these subsections to the facts in the Merchants Bank case. They are already public property, and doubtless familiar to this Committee, but I will endeavour to give you this further information, as you may indicate your desire for it.

By Mr. Marler:

Q. The definition in subsection 5 of section 113 of current loans, that is a statutory definition which definitely ties a banker down in any statement he submits under this Act to specifically call a loan overdue in accordance with the provisions of that section; a banker could not call an overdue debt anything else except what is defined by that particular section, he would have no alternative?—A. That would be the effect, I think.

Q. In other words you are making a statutory definition of what an overdue debt might be?—A. Yes.

Q. Whether the overdue debt as we understand it in common parlance is really overdue or not?—A. The subsection as drawn includes the other definitions which I would bring in, paragraphs (b), (c), (d) and (e) of the same subsection.

Q. Nevertheless I think you will admit that a banker would have to take that section as a whole, whether a debt is overdue or not?—A. Yes.

Q. So that is definitive?—A. Yes, loans of that class should not be included as current loans.

Q. They would have to be overdue debts, as defined by that particular subsection?—A. Or under the heading which I prefer, as being the proper designation for them.

Q. Notwithstanding other qualifications that might surround any debt a debt might be due, in other words, within the meaning of that section, and yet be a perfectly good debt in every way?—A. There might be cases of that kind.

Q. There might be numerous cases, might there not?—A. There might. I might refer you again to what I found in connection with the Merchants Bank case. I think those of you who will remember the nature of the evidence there, will remember that in four branches of the Merchants Bank there were over two million dollars of loans returned monthly as current loans, and returned also on the half yearly statements which were intended by way of placing a valuation upon those loans, included also in those statements as current loans. There was not a single redeeming feature about any of the loans included in the list of two million dollars. I examined them very carefully myself, and all the information available at the head office of the bank for the purpose of discovering whether by any possibility a bank manager or a bank director or a bank auditor would have any reason for admitting them into the category of current loans.

Q. Might I interrupt you; would not those debts you particularly refer to be more or less brought under the category of what is commonly called a frozen

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credit, something that is fixed, that there is no likelihood of being repaid within a reasonable time?—A. Yes.

Q. And that the securities behind those particular credits you speak of were not sufficient to look upon them as a reasonable and good credit in the ordinary acceptance of the term?—A. Not wholly that, but largely that.

Q. Very largely that?—A. Yes.

Q. In other words, the security behind those particular credits you speak about was not sufficient, you could not realize on the security in such a way as to liquidate the debt?—A. For instance, in some of these, to illustrate what I mean, the security was third mortgages, other securities were timber limits that had fallen in the bank's hands, the borrower himself not being any longer accessible to the bank, security on subdivision lots in western cities—I do not recall all of the classes of securities which I met with, but they were not current.

By the Chairman:

Q. Had they been long standing?—A. They had been long standing, and in that condition for years, and in my evidence I stated that a million dollars of these loans in the western branches had ceased to show any sign of life in two and a half years, and they were still being designated in the returns to the Minister as current loans.

By Mr. Marler:

Q. I would think your explanation was very, very clear. I don't think there is any doubt whatsoever that the various credits you speak of were overdue debts, no question in my mind at all in the explanation you have given, but on the other hand, those debts were made overdue by reason of the quality of the collateral behind that particular debt, that the collateral could not be realized on in any way. But there are many other debts that a banker holds on which interest has not been paid for over a year that are by no means frozen credit, that if the banker wanted to realize on the collateral it could be realized on almost immediately. I claim that under subsection 5 of this section the banker would be bound to include these in his statement as overdue debts and give those debts the particular name of overdue debts, which is not a pleasant name you will admit to give any debt at all, certain debts which were perfectly good, in which collateral was behind them, that if the collateral were realized on, would be paid off in a very short period of time; therefore I do not think the strict definition given to overdue debts in this amendment would act as a proper definition at all. I think it will cause a banker to put in his statement many debts which are perfectly good and of which the collateral is good, put them in a monthly or annual statement, whatever you please to call it, and that would be misleading to the public.

Mr. HANSON: Is this open for discussion now?

The CHAIRMAN: Not for discussion.

Mr. MARLER: I may be out of order.

By Mr. Hanson:

Q. I should like to ask a question, if one waits till the witness is through it passes out of one's mind.—A. I would prefer that you should adopt this method if it is agreeable.

Q. I would like to ask you with respect to this: after the period of depression, I don't know whether you know anything about the lumber business or not, but down in the eastern provinces the depression hit the lumber business much quicker than it hit the agricultural business. There were large concerns operating in the Miramichi district in the province of New Brunswick, who for three years were unable to sell their cuts. They had brought their logs out, manufactured them, and the manufactured lumber was all in their yards. The

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banks were carrying those manufacturers, had hundreds of thousands of dollars locked up in the manufactured lumber—

The CHAIRMAN: When did that commence?

Mr. HANSON: We will say in 1919 or 1920.

The CHAIRMAN: 1919, I think.

Mr. HANSON: Now then, there was a perfectly good asset, but the interest was not being paid on that for twelve months, and for twenty-four months in many cases. The banks had the security under Section 88, on the manufactured lumber. They also had the security on the timber, which was worth along \$1,000 a mile in New Brunswick. The tendency on the part of the bank would be to draw in the loans and make the lumbermen sell at a great sacrifice, with the result that nine out of ten would be ruined, amongst lumbermen. The industry would receive such a blow, that it might not recover in a generation, and no great important purpose would have been served on the part of the bank. There is a case where your arbitrary definition—I do not say your arbitrary definition, but I might say you are responsible for a part of the arbitrary definition—if I am wrong I might be corrected—where it has served a very improper service. In the light of that information, do you think that these arbitrary definitions, even of two years, in the view of the extraordinary condition that prevailed then should still be adhered to?—A. I think I can answer you quite frankly. My personal opinion is that there might be many cases of hardship under that definition. You are correct in stating that the suggestions were made by me.

Q. Perhaps I had no right to make that statement.—A. I wish to assume the responsibility for them. I would explain, however, that I made those suggestions as a basis for discussion rather than as a statement of my own convictions as to the justice or the entire fairness of paragraph (a) I had no doubt about the others. I would prefer if a way could be found to place the responsibility upon the directors after an examination of the material respecting such cases as you have referred to.

By the Chairman:

Q. How would it do, Mr. Edwards?—A. I think—and the auditors if they concurred would think that if the case was a proper exception some way might be found to do that.

Q. Have you ever thought of this: having given a definition to the non-current debts, should it be required that the auditor submit them to the directors annually?—A. I think that is amply provided for, the matter of the auditors submitting them.

Q. I mean a specific direction to the auditors to report on current loans to the directors?—A. I think the auditors would do that. That brings me rather into a discussion of what the duties and responsibilities of auditors are, and if I might speak of that at this juncture, I would say that although volumes have been written by eminent accountants and others, upon the duties of auditors, I do not believe that there has yet been any agreement as to how far an auditor should go, or just what his duties include. An auditor's position has been really settled by certain leading cases which have arisen out of the circumstance that auditors have been prosecuted for neglect of duty; and the courts have had to determine just how much was expected of an auditor. Several of these cases are very clear, and they are the best definition that I know of to-day, of what an auditor of a corporation should do. Applying that to your question, Mr. Chairman, I would say that it would be the duty of the auditor to deal with matters of that kind and bring them to the notice of the directors, without it being necessary to place it in the Statute. To place it in the Statute, in my view, simply leads

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one to the point of considering whether what you have placed in the Statute is not the entire duty of the auditor, and whether he is bound to go beyond the particular things you state in the Statute. It restricts the value of the auditor, to place any definition upon his duties. The interests of any corporation are best safeguarded, insofar as the auditors are concerned, if you accept the construction which these leading cases have placed upon the responsibility of the auditor.

By Hon. Mr. Stevens:

Q. You would not leave paragraph (a) of Clause 5 in the Bill, would you?—

A. It is not a satisfactory paragraph in that form. I have stated that I advised the Minister that it was a fair subject to be discussed, with a view to discovering a fair and reasonable and proper way to draw a distinction between what might be a current loan and what might be a non-current loan.

Q. Following your immediate description of what the duties of an auditor may properly be, that all obtained under the Merchants Bank regime, during that period, when the bad debts were incurred.—A. No, sir. The auditor's duties are definitely restricted by the Act, as it stands to-day.

Q. By the old Act?—A. Yes. I believe that that probably affords an explanation of the attitude of the shareholders in this case.

Q. In other words, you would release the auditors from the obligatory duties fixed in Clause 56 rather than restrict them?—A. I would not release them. They are obliged under the general definitions to perform those duties, and to mention them and specify them in the Act, simply would relieve the auditor from what you do not specify in the Act.

Q. At least it seems to me, that only when you define his duty, that is his duty, and his duty is no more than that. Why not add that to his specific duty, that he report to the directors annually such loans as for the period of twelve months preceding the date of return, no interest had been paid, etc. You see my point? You have given a very excellent outline of perhaps what should determine the auditor's duties in general?—A. Yes.

Q. But then you suggest that the auditor is usually limited to his specific declared duties in the Act?—A. Yes.

Q. If that is the case, it would be necessary to add this in order that he should do it. He will not do it otherwise?—A. If this rule as to classification, or any rule which may ultimately be decided upon as to the classification of debts, is adopted, the auditor would be obliged, without the duty being definitely placed upon him, to see that these rules were observed.

By Mr. Hanson:

Q. But he would not go any further?

By Hon. Mr. Stevens:

Q. I think you will admit, and personally I am very certain in my own mind that that is not a good clause, as it stands in the Act.—A. It is not satisfactory to me, and if there is a practicable way in legislation of this kind to enable the responsible people about a bank, the directors and the auditors, to use some discretion to prevent hardship in such cases, I would be glad to see it.

Q. Why should it not be the duty of the auditor to report to the directors all overdue debts, such as defined here? It does not go out to the public. It does not create a false impression, but the directors would be made acquainted with facts, such as you mentioned a moment ago, that they were not acquainted with in connection with the Merchants Bank.—A. Do I understand your suggestion is that the entire discretion should be left to the directors and to the auditors, as to determining what are non-current?

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By the Chairman:

Q. No, the suggestion is to give a definition and then require the auditors to report to the directors?

By Hon. Mr. Stevens:

Q. The objection to this clause, briefly, is this, that perfectly good loans, such as lumber loans, farm loans, caused by perhaps one, two or more years of bad crops, but which are amply secured, while non-current in the established sense of the term, still would be perfectly sound loans, and should not be reported to the public as non-current or overdue debts. There is no harm, however, in having such loans reported to the directors by the auditors as non-current, if you like—I do not care what description you give them, particularly, so that the directors then would be the responsible parties to determine whether they should be carried or classified as overdue debts. There is a vast difference between non-current and overdue. Quite a marked difference.—A. Yes.

Q. An overdue debt is running rapidly towards a bad debt. It is a question whether they should not be written off.—A. A loan may have become non-current which is capable of being realized upon to-morrow, if the bank desires to exercise its right, so that it cannot be considered as an overdue or bad debt.

By Hon. Mr. Fielding:

Q. It is proposed to strike out the heading "overdue debt." "Non-current" loan is certainly not so objectionable.

Hon. Mr. STEVENS: I quite admit that, but you would classify loans as non-current. While they are non-current in a sense, still there is a discrimination between a perfectly good debt, which is not inactive, and a non-current debt, which is inactive, in every sense of the word. One class is drifting towards bad accounts and may not be availed of, and the other is a perfectly sound debt.

Hon. Mr. FIELDING: The words "non-current" do not convey any idea that the loan is a bad loan.

Hon. Mr. STEVENS: Immediately you place overdue debts with non-current debts, the public will be advised at once that that has replaced the old classification and included in that will be your overdue debts.

The CHAIRMAN: What is the purpose? Is it to advise the directors of the class of loans that are defined in section 112, or is it to give notice or information to the public?

Hon. Mr. FIELDING: This arises out of the clause requiring the return to be made to the Minister. In the Bill, as proposed, it will provide that a loan on which no interest has been paid for one year, should be so classified as overdue. It is proposed to change that to two years. Mr. Hanson says there were cases in New Brunswick where they had to be carried one or two years. Would there be anything wrong in saying that a loan for two years had ceased to be a current loan? Surely it was not a current loan.

Mr. HANSON: But the paper was renewed regularly, and it was amply secured, \$2 or \$3 to \$1, and when the market rose, \$10 to \$1.

Hon. Mr. FIELDING: Would not the two years term cover these cases?

Mr. HANSON: Two years might do in general, but there was an extraordinary situation.

Mr. MITCHELL: You might imagine a case such as Mr. Hanson mentioned, where you would have security in a case of that kind, of ten to one. There are many cases of farmers throughout the country, who have been unable to pay their interest, but whose collateral is exceedingly good, and you are going to

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put into the non-current or overdue debt column, these accounts, whereas you would have thousands of accounts where the man paid his interest regularly, and where he was practically insolvent.

Hon. Mr. FIELDING: "Non-current loans" I do not think carries with it any reproach of being an overdue debt, though it may be an overdue debt.

Mr. MITCHELL: It seems to me you could get over the difficulty by compelling a report to the directors by the auditors and let the directors take the responsibility of saying "these shall or shall not be considered current loans".

Hon. Mr. FIELDING: It is dubious.

Mr. MITCHELL: If the directors took the responsibility of deciding that they were satisfied with the collateral and with the security, on a resolution, if you like, it seems to me the public would be perfectly safe, in allowing them to go in the ordinary column and not put them in the overdue column.

The CHAIRMAN: What do you conceive to be the end sought to be achieved by this? Is it for the purpose of informing the directors, or anybody else, and if anybody else, who is that anybody else?

The WITNESS: The shareholders, of course, are a body vitally interested in knowing whether the bank's assets are liquid or not.

Mr. MITCHELL: Would not one of the effects be, if this clause were adopted, such as you suggest, to immediately compel the banks to call in all the loans from all these people.

Mr. HANSON: They would not take any chances. It would ruin them.

The WITNESS: There would be that tendency.

By Mr. Mitchell:

Q. Would that be very serious?—A. It would be in some cases. It might be in the case mentioned by Mr. Hanson.

Q. In the case of thousands of agriculturalists, during the last two or three years, when they had such hard times, would not that be serious, if the banks were compelled to call all these loans?—A. I have stated that the clause presented difficulty; I am simply emphasizing this, that there is a necessity for some rule of conduct or action or definition or classification by which banks in common, their auditors, their directors, everybody connected with them, may be able to classify their assets.

Q. Do you not think the suggestion made a few moments ago by Mr. Stevens is a practical suggestion, that the management and the Board of Directors consider this, and that they classify them, or make a return about the classification.—A. I think it is a reasonable suggestion. I think the directors can always be trusted, if they have knowledge.

Q. They would have to have knowledge, and not only that, they would take the responsibility?—A. I think so.

Mr. GOOD: How are the directors to classify loans, if there is no definition?

Hon. Mr. STEVENS: My friend does not get my suggestion. I say define it, but have the auditor on that definition, report to the directors. I may add this, that had that occurred, had that been the condition, rather, prior to the Merchants Bank, the incident referred to by the witness could not have occurred, \$2,000,000 being frozen out in various loans for a period of one or two years without the directors assuming the responsibility for it.

Hon. Mr. FIELDING: Your suggestion would be that the directors should decide what are current loans and what are non-current loans.

Mr. HANSON: And take the responsibility.

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Hon. Mr. FIELDING: Would they give us any guarantee of uniformity. People as a class, have one conception of what is a current loan, and others have a different one. Can you have uniformity under this condition?

Mr. GOOD: That is my point, Mr. Chairman.

The CHAIRMAN: Mr. Stevens suggests you give a definition.

Mr. GOOD: These clauses are defining clauses.

By Mr. Hanson:

Q. Do you think it is possible to make a definition that would cover every reasonable case? Does not every case stand on its own bottom? Is it reasonable to assume that a definition could be framed that would cover every conceivable case?—A. Is there not something to be left to the human equation, and good management, good judgment? I think that the directors and the auditors between them could arrive at some conclusions with reference to these matters, if they had the information, the facts, before them.

By Mr. Ladner:

Q. Mr. Chairman, just on this point. Section 56, subsection 11 reads: "It shall be the duty of the auditors to report to the general manager and to the directors in writing any transactions or conditions affecting the well-being of the bank which are not satisfactory to them" and so on. Then there is a specific provision following that. You yourself raised the question some moments ago about that point. Has not that subsection considerable bearing, if you get away from a straight definition?

The CHAIRMAN: Yes, suppose if you define "non-current loans" and specifically direct the auditor to convey that information to the directors, it may be of more value than a general direction.

Mr. LADNER: Would the overdue aspect of the loan be the determining factor as to its solvency?

Hon. Mr. STEVENS: No

Mr. LADNER: As soon as you start to describe what a good loan is, then the field is very wide. Once you place the general responsibility upon the auditor, then you limit the field to his skill and responsibility.

The CHAIRMAN: The purpose of the thing is, to call the attention of directors to a class of loans so as to put them on their guard.

Hon. Mr. STEVENS: May I make a little more clear, perhaps what I proposed moment ago. It is this: that the auditor shall, under such a definition as we have before us, report every loan to the directors that has not been active; we will say where the interest has not been paid, or there has not been a part of the principal paid during given periods. It will then be the duty of the directors to determine whether the assets behind that loan are sufficient to constitute it an active loan from the standpoint of realizing on assets; because a loan is active if you can realize to-morrow or the next day on the assets. The only difference is you do not force the bank in order to keep its statement in proper shape, to realize on perfectly good loans, and work a hardship upon the borrower. That is the point, and I think it is more vital by far even than getting a definition.

Mr. MITCHELL: More vital to the borrower?

Hon. Mr. STEVENS: More vital to the public.

Mr. KELLNER: Why not segregate them and have two classes?

Hon. Mr. STEVENS: Let the directors assume full responsibility. It is part of their duty anyway to determine which loans are active and which loans are not

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active, based upon an examination of the securities attached to those loans, instead of the reverse idea, namely, that the mere fact that interest on the loan has not been paid, should condemn the loan, which is the condition before us to-day; that is the loan is black-balled simply because the interest has not been paid, whereas the loan may be perfectly sound from the standpoint of the assets attached to the loan.

Hon. Mr. FIELDING: Not black-balled. "Non-current loans" does not mean "black-balled." You are dwelling on the old expression: "Overdue debts." You are still harping on that.

Hon. Mr. STEVENS: I submit with all due deference that the minute you substitute for the words "Overdue debts" the words "Non-current loans" or any other words, it will convey the same impression.

Hon. Mr. FIELDING: The public generally do not pay as much attention to these headings as you think they do.

Mr. MITCHELL: Perhaps not, but would not the bank if they have to report as "non-current" or "overdue" or "inactive", whatever you may want to call it—would it not be the fact that the bank in order to avoid reporting such accounts or too many of them, would be compelled and would, as a matter of practice, force the collection; which would mean a great hardship to the borrower.

Hon. Mr. FIELDING: If the expression "non-current loans" conveyed the meaning you speak of, Mr. Mitchell, I would agree to that; but I do not think it necessarily should be so interpreted. What we are dealing with is the returns to be made to the Minister. Would you strike out this clause about the one or two years, as the case may be?

Mr. MITCHELL: The unpaid interest—that seems to me to be the difficulty. You are attaching too great an importance, it seems to me, to the fact that interest has not been paid. The account of itself may be perfectly valid, but just because the interest has not been paid, you are saying it is "inactive", "non-current" or an "overdue debt."

Hon. Mr. FIELDING: How long would you have it run without any interest being paid?

Mr. MITCHELL: I am not ready to say that that account should not be reported, even within one year, to the board of directors. Let the board of directors take the responsibility. They are the people who really should take that responsibility.

Hon. Mr. FIELDING: How would you change that clause for that purpose?

Mr. MITCHELL: I would not put in a clause at all, in so far as overdue interest is concerned. Or you might say simply that every account having overdue interest for two years should be reported by the auditor to the directors.

Hon. Mr. FIELDING: That would have to be done in a different clause, because we are dealing now with the returns to be made.

Mr. GOOD: Mr. Chairman, it strikes me that sub-clause (e) a sort of omnibus clause, covers every point not previously specified. If the auditors were required to submit to the directors such information as is being discussed, then possibly clause (e) would place the responsibility upon the officers and directors and meet the need.

By Mr. Ladner:

Q. Mr. Chairman, I would like to ask the witness this question. In your business, have you had experience in connection with the lumber business in British Columbia, as it relates to this section and the matters we have been discussing?—A. I have not an intimate personal knowledge of the lumber con-

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ditions in British Columbia, although my firm has an office there and my partners out there know more about it.

Q. Seeing that we are discussing this, Mr. Chairman, I wanted to make the remark that in British Columbia I know personally of cases where the most valuable timber limits have been pledged to be held as security to a bank for three and four years, merely because lumber at the time was a drug on the market, or the export market was poor and then in the changed conditions the timber becomes just as valuable as it was at the time when the loan was made.

The CHAIRMAN: The loan was not made on timber limits. It must have been a past due debt.

Mr. LARDNER: Cannot they loan on that?

The CHAIRMAN: A bank cannot loan on timber limits.

Hon. Mr. STEVENS: On the note of the borrower with the timber license attached as collateral.

The CHAIRMAN: They may, but I would have grave doubts as to the legality.

Hon. Mr. FIELDING: That is the same case as Mr. Hanson mentioned in New Brunswick, almost exactly.

Mr. LADNER: I was referring to the lumber business because in our Province it is the most important business perhaps.

Hon. Mr. FIELDING: So it is in New Brunswick.

Mr. LADNER: And the advances from the bank are a very serious matter, and I think any limitation such as proposed in this measure would operate distinctly against that business.

Hon. Mr. STEVENS: May I make a suggestion on this point. I merely throw this out for the consideration of the witness, who has apparently given this a great deal of study. If we take the intention or the desire to be accomplished in paragraph (a) of 5 and incorporate it in a little different form in section 11 of 56, as part of the duties of the auditors, you will note that subsection 11, refers to what the auditors shall do, among other things, "without restricting the generality of this requirement they shall report specifically to the general manager and to the directors from time to time upon any loans exceeding one per cent of the paid-up capital of the bank which in their judgment are inadequately secured." That is a similar provision to what I am suggesting to make, and then add "and such loans as are due" and so on. In other words, add it to this specified duty in subsection 11 of 56. I think that would overcome the whole difficulty, and place on the directors then the responsibility, because over here you say where they sign the return and so forth they shall be responsible for it.

Mr. MARLER: I was going to suggest, Mr. Chairman, that subsections (a), (b), (c) and (d) be entirely eliminated from that section, 113, and the section made to read:—

"For the purposes of any return," and so on, "'current loans,' any loan in respect of which there is cause sufficient in the opinion of the manager," etc., and then join that clause up with the suggestion Mr. Stevens has just made as regards subsection 11 of 56.

The CHAIRMAN: I do not think it is worth our while to take up time with these, to reach conclusions as to what form the amendment will take. There are a lot of ways of accomplishing the end, if we agree upon the end.

Mr. MARLER: Just for a moment I want to stress this, that the definitions in (b), (c) and (d) are not very satisfactory either, because the bank might take possession of the property and might realize its money very speedily. The bank commencing an action at law for the recovery of a debt does not neces-

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sarily make that a non-current debt; it may be paid up speedily. If the borrower has made an abandonment the same remark applies. But if you have a general qualification as indicated in section (e) and join it with the suggestion made by Mr. Stevens as to section 11 that would get over the difficulty fairly well I think.

Mr. GOOD: What would be Mr. Edwards' opinion of that suggestion.

Mr. BAXTER: Mr. Chairman, I know that one of the most anxious moments I ever put in in my life was during the few days when I was a member of the Government, when the Merchants Bank matter came to our attention. It almost created a panic in the country. Now I do not want to put the Government in the position of having to assume responsibility unfairly; I do not want the people to feel that they are relying on the Government when they ought not. At the same time, there is power in the old Act for the Minister of Finance to order a special audit. If he wants information he can order it, and there is a certain amount of responsibility upon the Government with respect to these powers. Now I notice that all this auditing simply stops with the directors and ultimately with the shareholders. Ought there not to be a provision by which what the auditors find should be laid in some form automatically before the Finance Department, so that the Finance Department would have the opportunity to see a tidal wave coming? That under the old system was impossible. No official of the Finance Department, no Finance Minister could from the returns that were presented have taken any action in the Merchants Bank case. At least I think not. I speak subject to correction, because I am not a financial man. But it seems to me that if the Government is to have those powers at all, they should have information at an early date so that the Minister may order some action to be taken. I thought that might apply to the clause under discussion. With the statements that are now sent, it seems to me it might not be necessary to change from the present form as regards the loans that are overdue; but if you had the auditors' report practically confidential to the Finance Department, setting forth those facts, and also laying them before the directors and the shareholders, without alarming the public, which might not be able to appreciate the facts, these facts if they have an important bearing, would be laid before the only two bodies that could deal with them, the directors who ought to be fixed with the knowledge, and the Finance Department, which ought to have some kind of warning of the general direction in which the business of the bank was going, so that it might interfere.

Hon. Mr. FIELDING: When you say it might interfere, Mr. Baxter; how interfere? What power would the Minister of Finance have after that?

Mr. BAXTER: He would then exercise the power of a special audit.

Hon. Mr. FIELDING: What then, if that does not do any good?

Mr. BAXTER: Then he could take it up with the Bankers' Association. The very fact that the Minister of Finance had intervened and required special information would make the shareholders active and would make the directors active, if they had not been active before, without frightening the public.

The CHAIRMAN: Your suggestion will come before the Committee in concrete form later, Mr. Baxter. There is an amendment practically along the same lines, before us, from Mr. Woodsworth.

Mr. BAXTER: I did not know that.

The CHAIRMAN: It is not printed yet but it will be very soon.

Mr. MITCHELL: Mr. Chairman, under subsection 16 of 56 and under 4 and 5 of 112 we have exactly what Mr. Baxter is speaking about.

The CHAIRMAN: Yes. Now Mr. Edwards, can you find the place in your memorandum where you left off?

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Mr. EDWARDS: That I think concludes what I have to say at the present time about statements and returns, unless further questions be asked.

I have faith in the principle of the shareholders' audit. The shareholders of a bank are the class of person upon whom the consequences of disaster fall most heavily. Therefore, if the shareholders look after themselves no one else can come to grief. The note-holders are safe under any circumstances, but the only confidence the depositors have is that the shareholders are behind them and that they are actively looking after their own interests. Therefore the audit of a bank is essentially a matter for the shareholders. Section 56 was intended to assist the shareholders. Evidently, nobody in Canada knew very much about bank auditing in 1913, and the provisions of this section do not appear to have been the subject of much discussion. It had however many inherent defects, and some of these may be noted. Subsection one leaves the choice of persons eligible for audit duty to the general managers, with further power to revise the eligible list annually. It must be apparent from this that any person selected from such a list by the shareholders entered upon his work with the consciousness that the general managers held his future in their hands. The history of the banks which had recently failed—the Ontario, Farmers, Sovereign and others—afforded evidence enough that the auditor might find it necessary, in the course of his duties, to criticise the general manager himself, but he might hesitate to go that far under the circumstances. Subsections eighteen to twenty not only did not prescribe an audit that would give to the shareholders any real assurances, but definitely relieved the auditors from the more serious and skilful duties which they are expected to perform in connection with other corporations. To define an auditor's duty is to limit his responsibility.

I am convinced that if the auditing of banks has been well done during the past ten years, it will have been notwithstanding the provisions of Section 56 rather than by reason of them.

Commenting upon the proposals in section 56 of the Bill now before the Committee, my view is that with a few modifications they are calculated to make the shareholders' audit a thoroughly effective one. Chartered accountants are specified for the duty and with reference to that I have only to say that they do not desire that any competent persons who are not chartered accountants should be denied the opportunity to participate and would favour an amendment to provide for that.

The selection of an eligible list by the general managers might with advantage be amended so as to give to the Minister the right to remove any name on the certified lists upon sufficient cause being shown by the general managers. An illogical feature of the present Act would thus be eliminated. A selected list of forty or more might omit the names of some very desirable and competent men, whom an important body of shareholders might otherwise choose to represent them.

It appears to be the impression in some quarters that subsection 6 renders a bank auditor ineligible forever, if he has served for three years with the shareholders of any one bank. As there could be no useful purpose served by placing such a disability upon anyone, the intention ought to be made clear.

A further amendment whereby there could be made substantially effective, a rotation of auditors amongst the banks at stated intervals, would in my opinion be a further improvement. An auditor who becomes familiar with the system of one bank only, has no opportunities for comparative study. If an auditor of a bank having a highly developed and efficient internal system could be moved to another bank after so many years of service, the other bank, if less efficient in its methods, would be the gainer. Mr. Forgan, in evidence before

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this Committee said with regard to the system of inspection in force amongst the Chicago banks (page 723):

"The disciplinary effectiveness of the method lies in the fact that they (the banks) are all measured by the same standard."

It is not of course possible that the full benefit of the plan he describes can be obtained under the scheme of a shareholders' audit. The plan of limiting the auditor's term of continuous service with any one Canadian Bank would however, be an important and effective step in the direction of standardizing both the bank systems and the auditor's point of view.

A further consideration of much value would be that an auditor might be replaced without exciting public alarm. As matters now stand the substitution of auditors by the shareholders is made exceedingly difficult. Subsection 10 in the present Act sets up procedure which no shareholder could put in motion without subjecting the bank's affairs to adverse public criticism. The intention thus publicly advertised, to ask the shareholders to reject an acting auditor when he comes to them for reappointment, would be sufficient to set in motion all sorts of rumors as to the bank's condition. Whether therefore, the auditor is deserving or not of reappointment, he is practically certain of it. Even under the proposal in the Bill that there shall be two auditors for a bank, each independent of the other, a proposal to refuse to one of them the reappointment he looks for might be a very dangerous thing. The periodical retirement of an auditor, under the statute, would obviate all these risks and afford corroborative evidence to the shareholders that their investment was sound.

The value of a shareholders' audit is chiefly its value to a weak or indifferently managed bank, and for that reason I am unable to accept too definitely the views expressed before this Committee by general managers of banks which are admittedly efficient in their methods, upon the theory of the increasing usefulness of the auditor to the bank as the years go by. Cases may be imagined where the new broom is required and a bank which in a comparatively few years may show the cumulative effects of mismanagement described by Mr. Forgan is a case in point. That was precisely the state of the Merchants Bank, and it is probably true that the auditors by reason of seeing these conditions growing year by year, had become accustomed to them and had in a sense lost their perspective. It is probably true that continuity is desirable sometimes. Private enterprises, industrial or otherwise, where there is no large question of public interest involved, may be proper examples. The banks it seems to me are not in that general class. With a ratio of liabilities to surplus of ten to one, performing functions of supreme public consequence, and presenting such possibilities for concealment of material facts necessary to an understanding of their true position, definite assurances as to their solvency from a new auditor at certain intervals would carry definite weight and be most reassuring.

It cannot be true that a bank auditor, if a chartered or otherwise qualified accountant possessing reasonable experience, would be unable to form an opinion as to the true financial condition of a bank within one year from the date of his appointment. I would be deeply concerned to know that an effective survey for the purpose of enabling him properly to express such an opinion could not be made within four to six months or even less according to the diligence and the facilities used. Mr. H. C. McLeod in his evidence before this Committee in 1913 (page 130) said:

"There can be no doubt, that in any bank that is well managed, that has a good system of accounting, there is absolutely no difficulty for

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an intelligent auditor, a man who is accustomed to credits, to ascertain in a very short time whether a bank is sound or unsound. Not only that, but he should be able to ascertain within a very short time almost the exact value of the stock of that bank."

Mr. McLeod had familiarized himself with the Scotch system and knew that this was being done; so he brought out from Scotland men, chartered accountants, who could and did do it in the case of his own bank. A Canadian chartered accountant, man for man, is as good as a Scotch chartered accountant. Wherever throughout the English speaking world shareholders' audits are required by law, annual appointments are prescribed. If there were any possible circumstances under which an auditor could not fully appreciate the financial position of a corporation within one year, the laws of some civilized country would long ago have made provision for such a contingency.

There is no doubt in my mind that sub-section 16 simply affirms a position which every bank auditor ought to feel obliged to take. It is not reasonable that offence should be taken with it. The point of view of general managers who have given evidence before this Committee is inexplicable to me. I would have expected them to say:

"These accountants have been appointed by the shareholders to pass judgment upon me and my administration of the affairs of this bank and it would not be proper under the circumstances that I should have anything to say to them other than to see that they have full access and that they receive all the information and explanations they require, and least of all, must there be any relationships between them and myself as general manager which might impair the confidence of the shareholders in them."

The memorandum submitted by the general managers appears to say that the accountants who have undertaken to represent the shareholders benefit so greatly from the patronage of the bank's officers that they are more definitely in the service of the officers than of the shareholders. Such a condition can only arise from a complete misconception of what a shareholders' audit should be. I offer the view that under such circumstances the shareholders are not getting what they are entitled to, namely, the undivided loyalty to their interests of the men they have retained for that purpose.

By Mr. Marler:

Q. According to that you think the bank auditor should be a bank auditor and a bank auditor only?—A. In so far as that bank is concerned.

Q. He should take no work directly or indirectly from any officer of the bank?—A. I think not.

Q. Or look into any outside company for the benefit of the bank?—A. Yes.

Q. Or report upon any outside issue in which the bank is interested?—A. I will be dealing with that in a little while.

By Hon. Mr. Fielding:

Q. The bank in each case meaning the management of the bank?—A. Meaning the management of the bank. It is indeed unfortunate if matters have already gone that far, that a bank auditor requires time to decide whether he can afford to continue as the auditor for the shareholders, but he should nevertheless be required to make that decision. It is at least regrettable that the general manager should feel the necessity for employing the shareholders' auditor, when there are so many other first-rate public accountants available.

The necessity ought never to arise for the bank auditor to investigate the affairs of the bank's customer for any purpose connected with an audit of the

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bank's affairs. The opinion of Mr. McLeod may again be quoted on this point. In reply to the question (page 141):

"Would they (the auditors) go to the firm whose paper is there and ascertain whether they are as solvent as they should be, and put that paper in such class as it ought to be?

he said:

"They would be going beyond their powers if they do that. I think that would be most injurious. They would act through the bank management."

This is a very important and thoroughly sound declaration respecting the duties of bank auditors. Their duty is to require evidence of this nature from the management.

By Hon. Mr. Stevens:

Q. Do you suggest by that that the auditor is privileged to go himself and verify the information given to him by the management?—A. I would say that Mr. McLeod's view was perfectly sound, that the bank auditor should not go into the offices of customers of the bank himself for the purpose of obtaining information, but that he should place the obligation upon the management of the bank to obtain information respecting that customer which he might review for himself, and determine from that.

Q. Would you consider the auditor justified in going and examining the securities, for instance, or the affairs of the company involved in order to verify the statement supplied to him?—A. He examines the securities in the Head Office of the bank.

Q. You do not get my point; would you object to the auditor of a bank of his own volition verifying the statement given to him by the management by examining, if necessary, the affairs of the company offering the security?—A. I understand you now. No, I would place no restraint upon the auditor in the matter of discharging any duties devolving upon him in the capacity of auditor for the shareholders. It would be a part of his duties to the shareholders—I think I distinguished between that and additional duties to the manager—

By Mr. Marler:

Q. That explanation is not quite clear; supposing a report is brought in as regards an outside credit by another auditor, not a bank auditor, would a bank auditor be permitted to go into that mercantile concern for the purpose of verifying the other accounts submitted by the third auditor?—A. I would not place any restraints upon the bank auditor himself, if it was in the pursuance of his audit for the bank. That is to say, he would be able to confer with the auditor for the other company who had furnished the statement—it might be a firm, the general manager for instance might have engaged a firm quite as good as the bank's auditor's firm—there are sixty odd reputable firms of accountants practising—any other auditor but the bank auditor, to verify the audit and submit his conclusions to the bank auditor.

Q. I understand your meaning to be this, that in the first instance the bank auditor does not get the information; the first report is made by another auditor. That auditor and the bank auditor collaborate together, and if necessary the bank auditor then goes with the other auditor and gets the necessary information for the purpose of verifying the report so submitted?—A. That I think would be a detail.

Q. Is that in substance your reasoning?—A. My point is this, that it is the duty of the management of the bank to satisfy the auditor of the bank;

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the bank is not privileged to ask the bank auditor to go out somewhere and satisfy himself.

Q. Is not that simply duplicating your work? Is he not getting the information second hand instead of first hand?—A. He should get it second hand; the auditor should not derive first hand conclusions in reference to anything. It is of the essence of the auditor's duties that he pass upon what other people do rather than go into the matter in the first instance himself.

By Mr. Hanson:

Q. Does not the restricting provision of this Act go far enough to restrict you from going out and making an independent investigation with the other auditor?—A. No, it does not go that far, because he is not undertaking it for the management; he is undertaking it in pursuance of his duty to the shareholders.

By Mr. Marler:

Q. One could stretch that a little bit further?—A. Of course there will always be times when questions will arise as to what an auditor or a director or anybody else may do, but speaking for the members of my profession, I believe they would try to keep as far away from the doubtful line of action as they possibly could. I have confidence enough in them in that. There might be doubtful cases, but I fancy you could rely generally upon the standing of the accountants, if they felt that there was a rule of conduct laid down for them to adhere to it conscientiously and fairly.

Q. They would keep within the confines of the definition?—A. Yes. It is one of their privileges under the Act to require information, and it is the duty of the management to obtain it, not to employ the bank auditor to make the investigation, or exert its authority to compel the customer to employ the bank auditor. This I think touches your point, Mr. Marler. The auditor is in a sense the superman. It is not his place to form a first hand opinion upon the solvency of a customer of the bank. If he does that he usurps the function of management and relieves the bank's officers of the responsibility of giving or continuing a credit. It is his duty however to see that the officers of the bank have independently taken all proper means to satisfy themselves as to their customer's position, and to examine the evidence upon which their judgment has been formed. If such evidence is lacking, the duty of the auditor would manifestly be to report to the directors under subsection 11 "conditions affecting the well-being of the bank which are not satisfactory to them," namely, the inability of the officers of the bank to supply the information they require. It is undoubtedly wise, as has been stated here, that banks should require an audited statement upon an application being made for credit. Very few applicants for credit these days are without competent and honest auditors whom they are willing should supply the needful information, but if not, a condition of granting credit might properly be that reputable auditors be employed and leave the customer to make his own arrangements. Any other course opens the way for abuses, and public confidence in the shareholders' audit may easily become impaired.

Q. In your opinion would there be any difficulty in getting auditors of first-class description to act providing that section is retained?—A. I think not.

Q. You don't think there would be?—A. I point out this to you, I don't know how many bank firms audit banks at the present time; I think there are about twenty to twenty-five firms interested more or less in the audit of banks. The only restriction upon the general manager of Bank A is that he will not employ the auditor of Bank A; he may employ the auditors of Banks B, C, D,

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E, and F, if he likes, for the purpose of making investigations to suit him. There is no reason why these other auditors should not undertake work for Bank A. The effect of this will be to keep the situation clear. I am touching now upon an observation which Mr. Clarkson made yesterday and I was rather sorry to hear him make it—however, that was his point of view, that if clause 16 stood he would not be able to afford to take bank audits. I do not think Mr. Clarkson will notice any difference in the aggregate of his practice; there will be simply a readjustment. He will get the business—I think one of the members yesterday, Mr. Mitchell, made the observation that this disability in regard to this bank sets up an ability with regard to the others; in other words each auditor being disabled by the terms of this section from accepting work from the general management of the bank for which he is acting in the capacity of shareholders' auditor, would be enabled to act for other banks which are now giving work to their own auditors, and in the aggregate the same amount of work would simply redistribute itself; that is all I can see.

Q. It has been suggested that subsection 18 of the old Act, that is as regards inspection of branches, and also subsection 19 of the old Act, that is to say the examination of securities and a count of the cash, should be inserted in this particular section 56 we are dealing with now?—A. I perhaps did not make it clear, but my intention a little earlier in my remarks was to point out that these 18 and 19 rather restricted the audit than enlarged it.

Q. Would you hold that the duties of the auditor would include the duties?—A. I think the auditor's duties are far more definitely stated and his responsibilities are far larger if these sections are left out.

By Mr. Ladner:

Q. Before the witness passes to another section—A. I have just another sentence and then I am through. I wanted to call the attention of the Committee to section 32 of the present Act, subsection 7. This is the section—

By the Chairman:

Q. Of the present Act, not the Bill?—A. Of the present Act. This is the section which has to do with procedure at the annual meetings.

Q. You might read it?—A. Section 32 contains nine subsections regarding what shall take place or regulate the procedure at the annual meetings, and subsection 7 reads like this:—

“No general manager, manager, clerk or other subordinate officer of the bank shall vote either in person or by proxy, or hold a proxy for the purpose of voting.”

This is at the annual meeting of the bank. Such provision, it seems to me, is intended to secure for the bank, a board of directors, and auditors, who shall be wholly free from the control or influence of the officers of the bank. There would however seem to be little purpose in this enactment so far as the auditors are concerned, if you are willing to allow the same thing to occur in another way. In closing this statement, I desire to repeat that my only purpose is to secure conditions which will be most likely to strengthen the shareholders' audit and insure public respect for my profession, acting in the important and responsible capacities contemplated by the Bank Act.

By Mr. Hanson:

Q. What do you mean by this statement?—A. Section 32?

Q. Yes.—A. The only object in depriving an officer of the bank from voting at the annual meeting is to prevent abuses in the voting, in an election. The only reason for taking from the manager or an officer of the bank his right

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to vote upon his shares, is to prevent him from holding proxies or controlling the election of directors, and the auditors and directors are elected by the same body.

By Mr. Good:

Q. Is that not in the present Bill?—A. Yes, that is in the present Bill.

By Mr. Chaplin:

Q. What do I assume you mean by that? Do you mean to prevent the directors also from procuring proxies?—A. Oh, no.

Q. Would you mind reading that sentence over again?—A. No. This has been in the Act for thirty years or more. "No general manager, manager or clerk or other subordinate officer of the bank shall vote, either in person or by proxy, or hold a proxy for the purpose of voting." Nothing about directors.

Q. You have made some remarks on that.—A. The purpose of dis-franchising an officer of the bank would be I think to prevent an unfair use of that franchise, for the purpose of controlling the election of directors.

By Mr. Mitchell:

Q. You do not suggest any change, do you?—A. No. I am simply pointing out to you that you deprive the officers of the bank of the right to vote for the election of an auditor, but you leave the auditors open to undertake duties which are inconsistent with their duties as shareholders' auditors. Of course there is no purpose in that subsection, if you leave them open to be influenced in another way.

By Mr. Ladner:

Q. I would like to ask the witness with respect to Subsection 16 of Section 56, the auditors not to undertake other employment for the bank. I understand you approve of that section?—A. Yes.

Q. Do you base your opinion upon actual experience or observation?—A. No, not at all. I base my view upon an underlying and fundamental principle that I think should govern all professional men. I think that the man who takes on a professional capacity for a client should not act for another in the same case, whose interests might be adverse, or possibly hostile, or whom he might have to criticize in the course of his duties.

Q. Have you had actual experience in auditing a bank?—A. No.

Q. Do you audit any banks at the present time?—A. I am not an appointed auditor of a bank at all.

Q. Do you not think that the adverse circumstances are such as would cause any auditor of repute and professional honour to relinquish the position when that situation arose?—A. If that is so, the subsection can do no possible harm.

Q. We had one witness, quite an eminent auditor, who told us that four per cent of his business is banks, and twenty-five per cent is business connected with banks. The balance is general business, and you have the services of the most skilled auditor, perhaps, and all professions have good men, and ones who are less good. You would have those services taken away from the banks. I refer to Mr. Clarkson.—A. I thought I had made that clear, but, this is the point: a bank auditor may have one or two or three or four banks to audit. There are seventeen banks in all. His disability only extends to the banks in respect of which he is the auditor. He may do all the special work for the other thirteen, without any question arising as to a conflict of interests, or whether it infringes any code of professional ethics.

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Q. Take in the case of competing wholesale firms, does not the same thing apply, that fraternal legislation should be passed restricting the right of auditors for competing wholesale firms in the same city? Certainly the condition would create an adverse interest.—A. I do not think I understand you.

Q. Supposing you were an auditor in Montreal and there are several large wholesale grocery firms, and you are auditing the accounts of two of these, both competing; can you not find there circumstances which might be such as to make the interests of one adverse to the interests of the other?—A. Absolutely not, from an auditor's standpoint. There is no conflict of interests possible.

Q. Why would there be here?—A. Because the interests of the shareholders and the interests of the officers of the bank may not be identical in all circumstances.

Q. He is limited in undertaking any employment at the instance of an officer. An officer may say "would you do this wholesale firm and get the information." He cannot do that except at the instance of an officer. Do you think that is reasonable?—A. Think he can do what?

Q. On what do you base your judgment?—A. I have no suspicion of any bank auditor that I know at the present time. This Act is something which you are framing, to govern something perhaps which does not exist to-day, but which may exist in the next ten years. I assume you are not thinking of the bank auditors or the bank managers of to-day at all, but circumstances may arise where a mismanaged bank employs its auditor very largely outside of the ordinary course of his duties for the shareholders. Now, I say that the history of human frailty shows that under certain circumstances the shareholders may not have the undivided loyalty of the auditor to their interests; it may be so clouded by the fact of the advantage which comes to him from serving the management of the bank or the officers of the bank in other capacities.

By Mr. Hanson:

Q. In a larger way?—A. In a larger way.

By Mr. Ladner:

Q. Where there are two independent auditors of the bank, does the bank influence both of them?—A. That is to be seen; I do not know. I think there is much greater security where there are two than where there is one.

Q. The real basis, in your opinion, for having such action is based rather on the frailties of human nature, on hypothetical possibility, rather than on actual practice in banking operations?—A. I think most of the laws take account of human frailties. If it were not for human frailty we probably would not require to have laws at all.

By Mr. Mitchell:

Q. Did I understand you to say a moment ago, that you had not had very extended experience in bank auditing?—A. I have audited no banks. My sole knowledge of bank auditing is derived from my investigation of the Merchants Bank affairs.

Q. You have had a long experience in auditing?—A. I have had thirty-five years experience as an auditor and have made a study of it, and am entitled to speak with a certain degree of authority on the subject of auditing. I think very few will dispute that.

By Mr. Hanson:

Q. Do you think there is any distinction between auditing banks and auditing mercantile offices? Mr. Clarkson laid some stress on it.—A. I think

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I pointed that out in my remarks. I think I stated that banks are carrying such an overweight of liability to resources and they are performing functions of such supreme public importance, and the opportunities of concealment are so great that they constitute a class by themselves. There may be others that approach them but they at least are in a class by themselves.

By Hon. Mr. Fielding:

Q. I understand your position to be this, when you speak of the bank in this relation, that means the management, and that the interest in a certain sense of the manager and the interest of the shareholders must necessarily be the same. The shareholders are trying to inquire into the management and they select their auditors for that purpose, and therefore I understand you to mean that the auditor must be absolutely independent of the bank manager?

—A. Yes.

Q. That is the object of your suggestion?—A. That is the object.

By the Chairman:

Q. Do you know of subsection 11, where the auditors are supposed to report on loans exceeding one per cent?—A. I know of it.

Mr. GOOD: I would like to know what sort of investigation Mr. Edwards made of the Merchants Bank, about what length of time, and what sort of investigation he made.

By Mr. Hanson:

Q. Do you think there is anything in the contention of the banks as expressed here, that if the bank auditors are prohibited from taking outside accounts at the instance of the management, we will say, they will be in danger of losing the best type of auditor for the bank and the shareholder?—A. I can conceive of nothing in this subsection that may give need to the appointment of any different men than the men who are now auditing the bank. What I say, is that I can quite see that the effect of this may be merely to redistribute the work a little bit among the auditors.

Mr. HANSON: You answered that before.

By Mr. Good:

Q. I was inquiring about the amount of time that Mr. Edwards put in in investigating the Merchants Bank and whether or not he cares to say anything about it to the Committee.

The CHAIRMAN: What do you say, Mr. Edwards?

The WITNESS: I would not care to have my work in connection with the Merchants Bank considered as a criterion of the duties of the bank auditor, for the reason that bank auditors have to go into perfectly solvent healthy sound banks which have public confidence, and they have duties of great delicacy to perform. When I was sent into the Merchants Bank to examine their accounts, the facts, substantially, with reference to that institution were already known.

By Mr. Good:

Q. By whom were you sent?—A. By the Minister of Finance, and I was sent for a definite purpose. A charge had been laid against the president and against the general manager of making and signing false and deceptive returns. My investigation, I might say, concentrated upon what material might be pertinent to those charges. Incidentally, I gathered a great deal of information. I might say that while I was not instructed to go beyond the scope of the charges made, I did enlarge my investigation very considerably, necessarily so, for the

[Mr. Geo. Edwards.]

reason that anything I touched upon might develop something which might bear upon those charges.

Q. What length of time did you put in at it?—A. I think in all about five or six weeks, myself and two other chartered accountants, members of my staff, and some subordinate clerks. We were busy with the Merchants Bank for about five weeks or it may have been longer. I do not just remember.

Q. What were the chief lessons that you learned in that examination?—A. I think the outstanding thing that I learned, was the ease with which information may be kept from the directors.

By Mr. Hanson:

Q. Bad management?—A. And anything that emphasizes the need for improvement in those conditions would be, in my judgment, a very desirable measure for Parliament to consider in connection with the revision of the Act. I do not want to speak too definitely about the failure of the auditors to function adequately in that case, because as I say, they were not under review. The matter only came up incidentally.

By Mr. Good:

Q. Were they deceived by the management?—A. I cannot say. On the facts that were before me, and the reading of these subsections 18 and 19, I would judge that they took a very limited view of their duties and responsibilities as auditors. It is only upon that theory that I could understand the president's statement as to the doubt that existed, as to what the duties of the auditors of the bank really were.

The CHAIRMAN: Have you completely answered Mr. Good's question?

The WITNESS: I understood Mr. Good to ask me the chief lessons I learned.

The CHAIRMAN: And you have finished?

The WITNESS: Yes.

By Mr. Ladner:

Q. We learned from Sir Frederick Williams Taylor, when he was here, in a general way that some eight or ten million dollars was secured in Dominion notes by the deposit of securities in the ordinary course. Do you know how long that was before the merger, and the amount?—A. I am not prepared with the information.

Q. Do you know the amount?—A. I do not. I do not recall it. It was not a matter that impressed itself upon me in connection with the work I had to do.

Q. Did you become acquainted with the fact that quite large borrowings from the Finance Department had been made?—A. Yes.

Q. Was that information in the hands of the directors? Did they authorize the borrowings from the Finance Department?—A. I could not say. I do not know. I am not prepared to say just what obligation would rest upon the directors in that matter. It might be the general manager's discretion.

Q. I would be very much interested in knowing whether or not it was the general manager who had the authority to take practically eight million dollars of the shareholders' security and hand it to the Finance Department and get the notes and hand the notes out to the bad accounts, and whether the directors were aware of that.—A. I do not know whether I ought to take exception to one part of your observation, as to handing the money out to bad accounts.

Q. We will leave that out.—A. Of course, obviously, if the Merchants Bank deposited securities with the Minister of Finance and the Minister of Finance

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gave them legals for it, there is nothing prejudicial to the banks deposits or the shareholders, no discredit in that transaction, per se.

Q. What I want to know is, did the directors in that case know that the capital of the bank was being handled in that way, or was it fully within the knowledge of the general manager?—A. I have not the information to answer your question.

By Mr. Hanson:

Q. Perhaps what Mr. Ladner means is this, if the directors knew that a large amount of the bank's securities was to be put up with the Finance Minister in exchange for the legals, was there anything in that Act *per se* which would have put the directors on their guard and made them investigate the condition of the bank?—A. I think not. I think the schedule is amended in the present Bill to include a separate category for advances, under the Finance Act.

Q. There was nothing in the borrowing itself that would put the directors on their guard as to the position of the bank?—A. I would not say it would have been possible to discover it in the old schedule, but in the new it would be evident without investigation.

By Mr. Good:

Q. Would you care to express any opinion as to the advisability of this Committee making some investigation into the affairs of the Merchants Bank?—A. I do not think I would. I might go this far, that I cannot see what good purpose would be served by it now.

By the Chairman:

Q. What about the clauses in the Bill requiring a report of the attendance of directors, a report to the shareholders?—A. A. Well, I think the shareholders should know how well their selected representatives perform their duty. I think it is very desirable. I know that in many public bodies that is done. Many companies have by-laws of that kind, that before the annual meeting they shall send out such notices. Representative bodies of very many kinds do that sort of thing. We have rules of that kind in our chartered society.

By Mr. Morin:

Q. When banks have directors in London, with the head office in Montreal, you cannot expect these directors to attend the meetings?—A. If I answer that question I might appear to speak about matters of law and I, of course, am not a lawyer; but I do not understand that any one director of a bank is elected with any privileges that another director of a bank does not enjoy. In other words they are directors with equal responsibilities, equal rights and equal disability. If therefore local directors are appointed by shareholders, I would think, by the terms of their appointment, that there ought to be stated the reason for the election of directors at remote points, say for the purpose of appointing local boards or acting in an advisory capacity, or else under the proposed section it would be competent for the management to state to the shareholders just what duties those local directors had to perform. It might be quite sufficient to satisfy the shareholders, that they were desirable men to have and desirable men to re-elect.

By Mr. Mitchell:

Q. Could they not even be given credit for attendance at district meetings. There are directors and officers of the Canadian Bank of Commerce in Montreal?—A. Yes.

[Mr. Geo. Edwards.]

Q. If those directors in Montreal attend what we might term a district meeting in Montreal, or a director of the Bank of Montreal who resides in Winnipeg should attend a meeting in Winnipeg, might they not be given credit for their attendance there because they are no doubt doing efficient work for the bank?—A. That is my view, that the notice to the shareholders might properly—I do not think the terms of the suggestion exclude it—that in sending out the notices they might state they attended local meetings, and I think that could be very well established by the fact of their having a local Minute Book.

Q. As a matter of fact those district directors,—we will call them that for the purposes of the question—are in constant consultation on account of their local knowledge, with the local manager in the particular district in which they are situated.—A. I think they may be very useful men.

Q. It would not be desirable that anything should be put in the Act that would prevent men of that kind from acting?—A. No, but I think the shareholders should know precisely the extent to which those directors give service.

Q. In connection with the question asked by Mr. Good, as regards the investigation into the Merchants Bank, you said you did not think any good would come from that?—A. No.

Q. As a matter of fact, the recommendations which you have made, to amend the Act, to the Minister of Finance, and which have been suggested here, as contained in your statement this morning, are amendments that have been suggested to you on account of your investigation, and it is all that you have to suggest as a result of that investigation?—A. Yes, almost entirely.

The CHAIRMAN: Does any other gentleman wish to ask any questions? I think we might remain a few minutes longer.

By Mr. Spencer:

Q. During your investigation, Mr. Edwards, did you find that the bank had loaned 10 per cent or over on the paid-up capital to any one person or corporation?—A. I do not think there is any doubt about that. The well-known Thornton-Davidson case, I think, is a case in point where the bank loaned them four million dollars. I have only mentioned these cases because they have already been so frequently mentioned that I am saying nothing new. There was that ladies' wear case. There were two. I did not particularly make a note of single loans that were in excess of any particular percentage.

Q. Do you think there should be a limit put on the amount a bank could loan to any one customer?—A. I do not know. If you do that, you take the responsibility away from the bank. Of course, that Thornton-Davidson matter was a most extraordinary affair. How that came to be such a large amount, without the directors being alarmed, long before they were alarmed, is something that really did not transpire. It was stated, I believe, that inaccurate reports had been made by the local manager as to the condition of that account, and that even the head office was in a measure ignorant of what the true facts of the case were. You will understand in a stockbroker's account a local manager of the bank may go far towards wrecking a bank without the knowledge of his superior officer, if he commits the bank to unauthorized transactions. It just suggests how great care and how complete supervision should be exercised in connection with the affairs of a bank.

The CHAIRMAN: Are you through, Mr. Spencer?

Mr. SPENCER: Yes.

The CHAIRMAN: Are there any other questions?

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By Mr. Spencer:

Q. May I ask if there were any of the directors of the Merchants Bank connected with the various companies that borrowed those large amounts that you mention?—A. Not that I could discover.

The CHAIRMAN: Mr. Edwards, of course, will always be available to the Committee. At least I think so. We will now adjourn until Monday morning. We have asked Mr. Baker to appear before the Committee on Monday morning.

Mr. LADNER: There is James B. Forgan, of the First National Bank of Chicago. Is there any witness of that calibre called to appear here?

The CHAIRMAN: Well, the sub-Committee have not decided.

Mr. LADNER: So far we have only had witnesses within the country. I would rather think somebody with an outside view would be valuable.

The Hon. Mr. FIELDING: You have Mr. Forgan's evidence, which was taken before, and I do not think there is any new question that Mr. Forgan has not already covered.

The CHAIRMAN: Mr. Baker, of Toronto, will appear before the Committee on Monday morning.

The witness retired.

The Committee adjourned until Monday, May 7, 1923, at 11 o'clock a.m.

TUESDAY, 8th May, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock a.m. Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Order, gentlemen. Any motions?

Mr. W. F. MACLEAN: Mr. Chairman, I received a letter this morning, and perhaps some other members have it also. It is addressed to me as a member of the Committee and is from a bank shareholder, C. M. Gripton, of St. Catharines, and suggests certain amendments to the Bank Act. I am not going to read it all but I will read one of the clauses.

"There should be a clause providing that any vote of a gratuity to a president, vice-president, general manager, or one of the higher officials of a bank, could not be legally passed unless notice of such proposed gratuity was given to the shareholders at the time the notice for the meeting at which gratuity was to be voted on was given."

He wants several improvements like that in the Bank Act. It shows that the shareholders of the banks throughout the country see the situation and they are beginning to send in these suggestions of improvements. I will give this to the Chairman and I hope he will put the whole letter on the record as it is very short. This is another reason why Parliament should not deal this year with the Bank Act, but that it should go over for another session in order that Parliament and the public generally shall have an opportunity of reading all the evidence, and some very important evidence has been given—and come to a decision in connection with it next session for a complete and far-reaching revision of the Act.

The letter referred to is as follows:—

13-14 GEORGE V., A. 1923

" *Re Bill 83.*

Dear Sir,—

I am a shareholder in nine Canadian chartered banks, and members of my family have considerable holdings in bank stocks.

From my experience in attending many annual meetings of shareholders, I am convinced that Sec. 28 s.s. 4 will be in the best interests of the shareholders, and will meet with their general approval, and hope it will not be struck out, as some directors are **trying to have done**.

Sec. 66 s.s. 6 limiting auditors' term to three years, is a wise provision.

Sec. 153 s.s. 2 will have a good effect.

There should be a clause providing that any vote of a gratuity to a president, vice-president, general manager or one of the higher officials of a bank could not be legally passed unless notice of such proposed gratuity was given to the shareholders at the time the notice for the meeting at which gratuity was to be voted on was given.

I have known instances of very large sums (one \$20,000) sprung on the tail end of an annual meeting in the name of the shareholders but really by the directors which it is almost certain would not have passed had the general shareholders had notice.

By-laws to increase the fees of directors should also require that previous notice be given to the shareholders and not brought on without a moment's notice.

Yours truly,

(Signed) C. M. Gripton,

69 Ontario Street,

St. Catharines "

The CHAIRMAN: Motions?

Mr. HANSON: Before you proceed to motions, I would like to make a short statement. On page 325 of No. 8 of the proceedings I inadvertently used the words "the late Mr. MacLeod, manager," instead of "Mr. MacLeod the late manager," from which the inference might be drawn that the former manager of the bank was dead. I have received a letter from Mr. A. C. MacLeod, the gentleman in question, in which he says:—

"I am glad to say, most respectfully, in the words of the late Mark Twain, that the report of my death is greatly exaggerated."

I wish to make this correction.

Mr. SPENCER: I have one or two amendments; do you wish me to read them, Mr. Chairman?

The CHAIRMAN: If you will just indicate generally it will be sufficient.

Mr. SPENCER: They are quite short. First that section 94 be amended by striking out the words "twenty-five" in the ninth line thereof, and substituting the word "ten." The next one is on section 93 along the same lines. It is intended to cut down the commission on small cheques.

Mr. COOTE: I have a proposed amendment here, Mr. Chairman, regarding section 125, the effect of which is to strike out the double liability which is attached to bank stock. That is the sense of it. There are several others but I do not wish to read them unless you desire me to.

The CHAIRMAN: Perhaps you had better explain them.

Mr. COOTE: The purpose of No. 2 is to prohibit the banks taking discount as opposed to the charging of interest.

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Hon. Mr. STEVENS: What section is that amending?

Mr. COOTE: Subsection 1 of Section 91. The third amendment is to amend section 20 by providing for a smaller amount of paid-up capital to qualify a director of a small bank, because later on I am moving that a smaller amount of paid-up capital might enable a bank to start business. The next is to amend Section 13 by striking out the word, "Five" in the first line thereof and substituting therefor the word "One"; and by striking out the words "Two hundred and" in the fifth and eighth lines thereof. The effect of that would be that a bank might be enabled to start business on a paid-up capital of \$50,000, with a subscribed capital of \$100,000.

Fifth, that section 88 be amended. There are several amendments there and these are all dealing with securities which may be taken by a bank from a farmer. I don't think it is necessary for me to read those.

Number 6, that schedule "G" be amended by inserting on page 83 of the Bill, after the paragraph commencing with the word "Aggregate" in line 9, the following paragraphs. This is some additional information which we would require the banks to give in their monthly or annual statement. First the aggregate amount of loans to corporations on whose boards any director of the bank is a member. The amount of deposits and loans in each province. Third, the maximum and minimum rate of interest charged by the bank in respect to loans in each of the several provinces in which the head office or branches of the bank are situated. Also the average rate of interest earned on the total volume of loans, in each province in which is situate the head office of the bank, or any branch or branches thereof.

Seventh, that subsection 3 of Section 54 be amended by adding at the end thereof the following proviso:

"Provided however that such statement shall include and show a list of the premises owned by the Bank, and their value as last assessed by the municipality in which the premises are severally situate."

That section 88A be amended by adding after the words "Eighty-eight" in the second line thereof the following words: "But not including subsections 2, 8, and 12 of section 88," and by adding thereto as subsection 6A the following. I might say that subsections 2, 8, and 12, refer to loans which may be made to farmers, and this amendment is proposing a new system of registration for such security. It says:—

"6A. Any security given in respect of a loan by a bank under subsections 2, 8 and 12 of section 88 of this Act shall be null and void as against subsequent purchaser, creditors or mortgagees, without notice thereof, unless the instrument securing such loan is registered in the office for the registration of chattel mortgages for the Registry District in which the property covered by such security is situate, and such instrument shall be subject to all the applicable conditions of registry pertaining to the registration of chattel mortgages."

Mr. KELLNER: I have a proposed amendment to section 80; the idea of it is, there are occupational exemptions in the Western Provinces whereby the farmers are allowed a certain amount of equipment exempt from any levy. Last year a good many of the farmers were indebted to the banks, and the banks advised them to give them a chattel mortgage, which they did on the assumption that it was the intention of the bank to see them through with this

year's crop, and now this year the bank refuses to finance the getting of seed. This proposed amendment would mean that in the future they could not give those chattel mortgages on the portion of their property that was exempt by the Provincial Statute. It also applies to subsection 12 of section 88, which is the section for the loaning on live stock by the banks, and I would just bring in this portion of live stock which required for carrying on the industry of farming, to be exempt from the general loan.

The CHAIRMAN: Any other motions? We will call motions before we close this morning's session. I would like to suggest that we are reaching the end of our deliberations on the Bank Act, and all amendments should be in at once. I think the clerk should see that the Order Paper containing notices of motion is reprinted so that it will be brought up to date, and it will be well if that can be done by to-morrow morning.

Mr. W. F. MACLEAN: When do you propose going into consideration of the unfinished clauses of the Bank Act?

The CHAIRMAN: I should hope that we will be able to start to-morrow.

Gentlemen, when we closed our meeting on Friday, it was with the expectation that we would have before us yesterday Mr. W. L. Baker of Toronto. I was advised only on Sunday morning that he could not appear, owing to business engagements, and it is quite uncertain whether he will be able to appear before the Committee at all. However, I hope to know within a day or so.

We have with us this morning Professor W. W. Swanson, of Saskatchewan University, who is appearing before us at the request of members of the Committee. I am sure I need not introduce Professor Swanson to you, because almost all of you have heard of him, and especially the hon. members of the Committee who are from the West. Professor Swanson was for a number of years in Queen's University before going to Saskatchewan University, and as you know his subject is economics. I would ask Professor Swanson to be good enough to come to the platform, and address the Committee in general terms, if he desires, first, and then put himself in the hands of the Committee for questions.

PROFESSOR W. W. SWANSON, called.

Mr. Chairman, and Gentlemen: Coming from a University in one of our Western Provinces, the University of Saskatchewan, I hope that you will bear with me if I am inclined to take the Western point of view. It is essential of course, in looking at our Banking Act and the ways in which it functions, that we should always bear in mind that our banks have a national work to perform, and that we must not take a merely sectional view of their work. I do not propose to take a sectional point of view at all, but I believe that it is vitally necessary to place before the Committee the conditions in the West, and the urgent need of the West for the adoption of such expedients as will rehabilitate agriculture, which is not only our basic industry in the Prairie Provinces, but which is so important, I might say vital to the well being of Canada at large. I might, Mr. Chairman, make a very brief statement covering one or two points which come up in a general way in connection with banking and the issue of money by the Government.

The banks are blamed for a great many things for which they are not at all responsible, and I think we must sharply differentiate between what the banks may legitimately be asked to do and what lies beyond their province,

[Prof. Swanson.]

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without their sphere of influence altogether. In the first place I take it that you are familiar with the fact that we are acting under a peculiar economy; that we are producing for the market and that a commodity is not really produced until it is sold; and that gives us reason why the farmers in the West to-day, who may be reducing their costs of production on the farm by every expedient that they can adopt, discover that there is a wide gap between their cost of production on the farm and the selling price, which is absorbed by agencies, which are operating, as far as the farmer is concerned, in the dark. They do not understand it. And so it is with our banking system as a whole. The United Farmers of Alberta, I think it was, at their last convention passed a resolution to the effect that the banking system of Canada was a mystery to them, and they wanted to have the issue of money and financial operations at large, taken over by the Government or by the people. In some way or other they thought that by so doing, the mystery could be taken out of banking. That is a naive hope, because our production is stated in terms of money and in terms of prices, you can quite understand, and indeed I know that you appreciate that a change in the general level of prices will bring serious difficulties, hardships and dangers, especially to the agricultural class. The agricultural class in the West at this time, when prices began to fall, were operating under high costs of production; and it was a difficult thing, indeed it was impossible for the farmers of the West to immediately adjust their costs of production to the prices of the commodities which they placed on the market. It is therefore important that as far as possible, prices shall be stabilized.

I believe that you had Professor Irving Fisher of Yale before the Committee a few days ago, when he formulated his theory of the compensated dollar; an attempt to bring forward some measure that would give us a greater stability in prices, because at the present time the chief difficulties under which the farmers are labouring are due to the difference between the prices of what they are obliged to buy to carry on their operations on the farm, and to take care of their cost of living, household expenses and the like on the one hand, and the prices they secure for their products on the other. There is another thing under this price maximum that brings up difficulties. The price mechanism under which we are operating does not always give us a satisfactory guide to the distribution of social energy. We know that during the war, for instance, great railway concerns, our great steam railroads and other public utilities faced great difficulties in arranging to secure the necessary funds of capital for fixed investment, and when we are asked to-day, as we are asked by many of the farmers and others, that the state should step in and control interest rates, rates of discount, and, fix prices, I think we ought not to forget the experience of the public utilities companies during the war when rates on railroads were fixed under the various commissions, and the earnings were not sufficient to provide an income to carry the heavy overhead costs. But the farmer to-day realizes, and I think we all do equally well, that the banker is in a dominant position to shape not only production on the farm, but production elsewhere; because the banker is furnishing working capital, and if working capital is not forthcoming there cannot be any investment capital because a farm that is not properly equipped, that has not the tools and machinery for production cannot bring forward the products to pay the return on the fixed investment; and not only is the farmer in that position but the great corporation is in the same position, because a great corporation depends upon the activities of the investment house, and the investment house in turn upon supplies of fluid capital available. The farmer then feels that the banker to a certain extent directs the flow of working capital. That is quite true.

[Prof. Swanson.]

The farmer also feels that in Canada there have come about, as in the United States and in Great Britain since the close of the war particularly, a great concentration of credit and of capital, and that somehow or other these huge capitalists combinations are operating for their private gain only, and are not taking into account the welfare of those who are producing on the land. I think they are mistaken, but at the same time there is that opinion which is prevalent in the west in large measure.

The banker has within his power to direct this flow of capital, he has a greater power in the United States than he has in Canada, and when we are asked, Mr. Chairman, to take over from the United States some system that will be modelled on the Federal Reserve system of the United States, I think we ought to bear in mind and keep before us that if we do we shall have a Board, perhaps of skilful men, financiers, trained men in control, perhaps with politicians in control, who will have that immense power of directing capitalistic investment in the country that may make for the augmentation of the power of some industries and of some occupations, and which may destroy others. In the west there is profound dissatisfaction with things as they are, and I think, Mr. Chairman, that I am taking a reasonable standpoint when I say, I think it is reasonable to say, that the western farmers have a right to be dissatisfied with things as they are. The western farmers were urged to produce during the war, and you know perfectly well, I do not need to tell you, how magnificently they responded to the patriotic appeal, not only giving their sons which they did generously indeed, the difficulty was to maintain the young farmer on the land in the west, the difficulty was not to get men, the difficulty was to keep men on the farms—I know Mr. Chairman, of what I am speaking, because in the university these young men could hardly be retained, kept back for the necessary and essential work of production on the farm. They did increase production, and then after they had invested heavily, when they had expanded there was a collapse of prices, and that collapse of prices over which of course they had no control, was in part laid at the doors of the banks. It was said the restriction of credit and the like hammered down prices. There is this profound discontent because of the closing virtually of the market in the United States to our live stock, because of the hardships that are unavoidable in readjusting the farmer and his work to the new conditions, and because credit was so widely extended in those days, and the banks have been forced to scrutinize so carefully every loan, that the farmer does find it difficult to finance his necessary requirements. I should like to say, however, Mr. Chairman, in this connection, that it is in my opinion absurd to blame the banks of Canada, the chartered banks, for the collapse of prices. The collapse of prices took place because of world wide conditions over which our Canadian banks really exerted little or no control. I say it is absurd to charge the banks with having forced prices down, because it is quite clear that if the farmer fails in the west the banks fail, every kind of business fails, and that is why I maintain it is so urgent from the national standpoint to take those steps that will place the farmer in the west in a position to courageously and with all his resources attack the burden, the work of production, without which (without his output, without the output of the west), without which Canada cannot achieve progress; we cannot even have stability. But there are many things entering into this question of price as well as credit, as well as bank notes and government notes, there is the tariff; there is the question of labour; there is the question of the Labour Union, there is the problem as to whether the high money wages were balanced by an increased output on the part of the labouring class in Canada, and the farmer has to pay those high wages that have been given to miners and to industrial workers and to railroad workers. I do not

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want, Mr. Chairman, in any sense to be understood as attacking the labouring man. I think the working man and the farmer are the two most important producers in Canada. It is merely that I wish to draw attention to the fact that high wages without increased production must increase prices, and that strikes and disputes in industry make their effects felt on the farmer. For instance we may say that what goes on in the United States does not seriously concern us; but the strikes on the American railroads last year among the shop men, and the strike of the miners resulted in this condition, the condition that obtained last autumn, that when we were moving the crops the American railroads were trying to move coal and wheat and grain at the same time, and it could not be done. We had a glut of grain moving on the Great Lakes, and prices were forced up for the transportation of grain from the head of the lakes, and from Buffalo to Montreal, and an increase of 10 cents a bushel makes all the difference between a reasonable measure of prosperity for the farmer and practical bankruptcy. And so the farmer is in his economic activities burdened in many different directions. It must not be supposed that the banks have it within their power alone to control prices, or that they are to be charged with having brought down prices. It is essential therefore, as far as possible, to look into this question not only from the point of view of giving to the farming community working capital, but our farmers to-day are in dire need of fixed capital at reasonable rates of interest. That is an entirely different question, and I do not know, Mr. Chairman, whether your Committee is investigating the problem of long term investments as well as the type of investments that are made by the Canadian banks. In the United States as you are well aware, by the establishment of the Federal Farm Loan System interest rates have been equalized throughout the Republic, because the bonds that are sold to raise the funds to finance the farmers are a joint obligation of twelve Federal Farm Loan Banks, and a farmer in Texas can borrow at the same rate as a farmer in Illinois, although the farmer in Illinois may have land worth \$200 an acre and the farmer in Texas may have land only worth \$50 an acre. The Federal Farm Loan System in the United States has lowered interest rates, because as you are also aware, the bonds sold to raise the capital funds are exempt from taxation, municipal, state and federal. The system has broadened the scope of the market for agricultural securities, and I think that what we need in Canada just now is a thorough going investigation of long time credit, so that the farmer may be able to consolidate his position, that he may refund his obligations—and he has obligations to the machine implement company, he has obligations to the mortgage company, he has overdue debts at the bank; if we could take all these debts, consolidate them and by some method of refunding give into the farmer's hand sufficient capital in order to pay off these obligations and equalize the interest rate and to reduce to a reasonable return on the investment, I think we would have taken a long step forward. I do not wish to make too long a preliminary statement, but before concluding I would like to make one or two further observations. It is altogether in my opinion too bad that there is this perpetual criticism of the east on the part of westerners, and perhaps a certain feeling of the east against the west that the west does not sufficiently appreciate what the east has done in building the railroads, in investigating capital, and the like; but may I be permitted to say, Mr. Chairman, in my opinion we ought to think nationally, we ought to have the rural mind, the rural outlook, because 50 per cent of our people are drawing their living from the land, we ought to have the rural outlook, we ought continually to keep before us the well being of the farmer; and I believe that our chartered banks would do wisely and well if they had in each province in the west a director who kept in close contact with agricul-

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tural conditions, who could take up the complaints, if there were such, and have them investigated, and wrongs righted, I know perfectly well that there are directors on the Boards of chartered banks from the west, but what I have in mind is directors who would have the outlook and the insight of men such as Mr. Vere Brown, whose going to the United States was a great loss to Canada; we need that, we need also a greater personal interest on the part of the banker himself in the local community. I know there is an agitation that is going forward for the establishment of smaller banks in Canada in order to get that very thing. The local independent bank in the United States has done something for the community, because those who have their money in the bank and the directors are local men; but I do not believe that we are going to get the same results in Canada by establishing independent and local banks with small capital; we will only get those results when we have men, bankers, who identify themselves with the local community, who have some knowledge of agricultural conditions, whose main interest is in agriculture, who have a rural point of view as well as a financial point of view, remembering that it is not money that is going to save the west, it is money harnessed to labour power. What we require is to encourage the people who are labouring on the land to-day, and give them again that moral courage, the morale that was so important during the war for our men, and to restore that morale in the west, and you cannot do it with people that are discouraged, that are carrying a burden of debt too serious to support.

I should like to say in conclusion that I think it is highly essential to develop the port facilities of Vancouver in order to find a new outlet, an additional outlet, a larger outlet for the western grain, so that the cost of transportation to Liverpool and other world markets may be, if possible, lowered, because rehabilitation of the farmer depends upon not only securing credit, to which he is justly entitled, and only such credit as he is justly entitled to secure, but the rehabilitation of western agriculture depends upon the restoration of the economic equilibrium; and that means bringing railroad rates and all kinks of prices into direct relation with the prices the farmer gets for the product of his industry. I am very pleased, Mr. Chairman, to observe that at the present session, I think I am correct in saying, a loan of five million dollars has been arranged for the port authorities of Vancouver. This cannot and will not injure Montreal, because our production in the west is going to increase. Montreal had all it could handle last year, and the record of what Montreal did is a magnificent one. No port on the North American continent has a finer record than the record of Montreal; the work that was done was magnificent, and extra burdens were thrown on Montreal because of the diverting of the American grain to the Port of Montreal at a time when the New York Central Railroad and the Erie Canal were not able to take care of the volume of grain that was flowing to the market. I think it is very essential to build the port of Vancouver, and to study the question of the possibility of reducing freight rates on grain shipping by way of the port of Montreal.

And finally let me say this, while I do think credit is vital and essential, credit is not for everybody; credit is not even for every farmer, but credit is for the man who can use it efficiently, who can use it wisely, who can use it well.

By Mr. W. F. Maclean:

Q. I should like to ask the witness whether he would advise the establishment in Canada of a system somewhat like the National Reserve Bank system that they have in the United States?—A. I think we ought to make a very careful detailed and comprehensive study of the American system, and exactly

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the results that have been secured therefrom before we make such an experiment in Canada.

Q. What would you suggest as the relief coming from Parliament and involving more or less the phrase that the Chairman disapproves of, the credit of the nation being behind this movement? Have you a suggestion to make? you are before the Committee and the issue is up, and you have stated it; now, I want to ask what national action ought to be taken in connection with our banking system for the recovery of conditions in the west. That is up and we have discussed it, and the professor from Yale took the line that he thought we ought to have a National Reserve Bank system somewhat similar to what they have in the United States.

The CHAIRMAN: I did not make any protest against the use of "National credit" generally; I objected to the use of it in the sense in which it was being used by some members.

Mr. W. F. MACLEAN: All right.

WITNESS: I should like to say in answer to the question that in my opinion that has little to do with the Canadian banking system as such, that is to say the Committee may go forward with its investigations of the Canadian banking system, and the revision of the Act, bearing in mind that the granting of credit on land is an entirely different problem, and I think that that ought to be studied very thoroughly and very comprehensively. But I take it, Mr. Chairman, that no one suggests that our banks shall go into the land mortgage business. In other words, in revising the Canadian Bank Act, I believe that problem lies outside the scope of the inquiry altogether as far as chartered banks are concerned. Our banks have been forced into the land mortgage business in a sense because to secure loans they have had to take mortgages on the land; and I believe you will be dealing with that very question of loans that are overdue upon which interest has not been paid and the like, but I thoroughly believe that a comprehensive inquiry ought to be made of long time credit. Whether we should introduce the American system or not I am not in a position to say yes or no, at the present time. I have thought over it very carefully and worked on it as a matter of fact for a good many months past; but there is one thing about the American system that I think contains within itself an element of danger, and that is, as you know, both for the Federal Reserve Bank in the United States, and for the Federal Land Banks, the Farm Loan Banks, a Board in each case is constituted. In the case of the Federal Reserve Banks there is a Board of seven members; in the case of the Farm Loan system there is a Board of five members. These men have tremendous power, they have the power of enlarging credit or of controlling it. I would want to be perfectly certain that if we adopted such a system in Canada the men placed in power should be practical business and financial men. We could easily ruin the whole system by appointing for political or other reasons, men to a position who are not qualified. Another thing, as you know, owing to the demands of the middle west in the United States, the middle west was dissatisfied with the curtailment of credit in the Republic. President Harding dismissed from the Board the Chairman.

By Mr. W. F. Maclean:

Q. Of which Board?—A. I have just forgotten his name.

The CHAIRMAN: Harding was the name.

By Mr. W. F. Maclean:

Q. Of which Board?—A. Of the Federal Reserve, and that to my mind discloses one of the chief dangers of setting up a Board to control credit in Canada. In addition to that it gives tremendous power to a small group, and

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I would like to be perfectly satisfied in my own mind that those men are well trained and equipped men, with the national interest at heart, and not men who are there to manipulate and control because of political or other purposes.

Q. Let me ask the witness this: do not the same objections apply to the bank Boards in this country, and is not there a concentration of power in the hands of men?—A. As a matter of fact on the whole the land corporations of the United States which are practically effecting relief are good corporations, and they have behind them the credit of the United States, which the witness rather avoids stating, and while it is a loaning Board and it is a land corporation it is not a bank proposition. Some Board must be created, and we have an expert here to-day, and I thought he would give us an exact plan for that. He wants to study that. He has come to tell the Minister of Finance that this question wants more study, and a great many think so. We would like to have a year to study it, and I hope the Minister of Finance will listen to the recommendation of the witness as made in this direction.

The CHAIRMAN: What is the question?

By Mr. Hanson:

Q. Do I understand from you that it is your opinion that the Federal Land banking system in the United States is still only in its experimental stage, and that it would not be safe for us to embark upon that at this moment?—A. No, sir, not precisely. My view of it is, the Federal Farm Loan banks were established in 1916, we had the war experience, and we have had the experience since, and as you know loans during the war practically ceased, as far as the Federal Loan Banks were concerned. They ceased for two reasons: first, there was an attack made on the constitutionality of exempting the bonds from taxation, the municipal, state and federal; and secondly, because of the tremendous demand for capital elsewhere at higher rates, and the farmers could not get the capital. I believe that it is an experiment in this sense in the United States, that it takes in a few years 1916 to 1923. Remember that some of those years were war years, and it will take ten, fifteen years, to thoroughly try out and seize the scheme. I believe it has been a great thing for us in Canada that the United States has undertaken that experiment, just as they have undertaken a multiplicity of other experiments that I think we would be well advised to watch rather than to accept immediately.

By Mr. W. F. Maclean:

Q. In the meantime what? Watchful waiting?

Hon. Mr. STEVENS: Let the witness complete his answer.

Mr. W. F. MACLEAN: And let me ask my question too, with all due respect to my friend on the right.

WITNESS: I was just about to make one small observation there, that there is too great a tendency in my opinion in Canada to accept experimentation that is launched in the United States. We accept their periodicals, and we are accepting their ideas, we are accepting their methods. I believe we ought to give the Canadian colour, to take the Canadian outlook, and do something that is germane to the best interests of our own country.

By Mr. W. F. Maclean:

Q. What is it?

By Mr. Hanson:

Q. Have you read the evidence of Sir John Aird in which he suggested the rural credit scheme to the provinces based on bond issues by the provinces?—

A. No, I have not.

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Q. Sir John Aird made that suggestion?—A. I am very much pleased to hear that. I have a plan of my own. A member of the committee has asked me to bring forward my plan, but I hesitate to do so very much. I prefer to delay the statement but I am glad to hear that Sir John Aird admitted that it was necessary to establish some kind of new bank or new credit organization that would furnish long-time credit to the farmer. I am glad to hear that because I think we must work in that direction.

By Hon. Mr. Stevens:

Q. I would like to ask the witness this, having reference to his suggestion that what is required particularly in the Prairie Provinces, is greater facilities for term notes outside of the range of present banking. Would the witness explain why it is that the present term-lending system, through loan companies, insurance companies, and private individuals, has apparently fallen down? Secondly, has the moratorium had anything to do with the discouraging of such loans and increasing the risk? And would it affect any system such as he has intimated is needed.—A. In reply to your first question, namely, why does the farmer complain about the burden, and why is the present lending system inadequate to meet the needs of the farmer? I would say that in the first place a mortgage company grants a loan for five years. Now the ordinary farmer cannot pay in five years consequently he must renew the loan. And there are renewal fees, inspection of lands and so on. And secondly, the great agricultural implement companies are also carrying on a tremendous lending business. I estimate that the agricultural implement companies have out in Saskatchewan, Alberta and Manitoba at this time, not less than \$50,000,000; somewhere between fifty and sixty million dollars; and the farmers are carrying those loans at nine per cent. Not only are they carrying those loans at nine per cent, but you know there is a great difference between the cash price of an implement and the time price, and if you add that difference to the rate that the farmer is paying on a six months' loan on an agricultural implement that he buys, the rate goes as high as 20 per cent. And I submit that 20 per cent is too great a burden. What I mean precisely is this: the farmer let us say buys on April 1st an implement costing \$100 cash. He gets six months' time, and if so he must pay \$105 for six months. There is \$5 to begin with. Then he pays nine per cent. Well, \$5 additional charge for six months is \$10 for the year. That is \$10 on a hundred dollar loan plus the nine per cent means practically a rate of 20 per cent. If we could put the farmer in a position to take care of his seed, his livestock, his agricultural implements, and his buildings, all from one source, we would reduce the burden that the farmer is carrying, because the farmer wants a loan not for five years, but we have proved by experience that the farmer requires a loan for ten or fifteen years. In the United States, the loan, as you know, under the Federal Farm Land system, may go on as long as 40 years.

In our Province of Saskatchewan our Government has a scheme of lending to farmers, and they have loaned a little over eight million dollars. It is the most courageous experiment in the West, I think. It is operated under a Provincial Farm Loan Board. But no single Province can solve this problem. It requires the united aid of all the Provinces, and I think that it requires Federal guidance if not Federal support.

Secondly, you asked me about the moratorium. Well, I am opposed to any moratorium except as a last resort; unless it is a case of war or some serious condition that comes about through panic. I believe that a moratorium injures and does not aid the farmer. You know perfectly well that where a moratorium is declared the agricultural implement companies and other concerns will not sell except for cash. They will not sell except for cash, if they

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cannot collect the debt. The result is that the farmer goes without necessary supplies.

Mr. COOTE: Would it not be a good thing that he should not get that implement.

The WITNESS: In some cases it would. I know of cases in which farmers have got credit to which as men they were not entitled. Remember that I have faith in the farmers in the West but there are farmers in the West who should not be farmers. Farming requires as great capacity and ability as any other undertaking, and there are some men who haven't it in them to be successful on the land. They ought to be somewhere else. Such a man has got too much credit. I could give you many instances, and no doubt you have instances that you know of, of your own knowledge, where credit has ruined the farmer instead of helping him. As I said a few minutes ago, credit ought to be given to the man who knows how to use it.

Q. What I meant was this; the farmer would be better off, would he not, if he did not get that implement, if he is required to pay 20 per cent, as you pointed out. That is the question that I want answered if possible.—A. I believe that one of the difficulties, one of the avoidable difficulties too, that confront the farmer to-day, is the fact that he is overloaded with machinery in too many cases. Farm implement agents have sold for instance, the large tractor that requires a certain amount of mechanical knowledge and mechanical gift to operate. I have information from one of the largest agricultural implement concerns dealing in Northern Saskatchewan. Last year they did an exceptionally large business, the largest in any farming community on the continent, even under these hard conditions. They had practically given up the sale of the large heavy tractor, and are selling the light tractor. Now many farmers have bought machinery that they do not know how to operate, that they do not know how to handle and they have bought beyond their needs. It is far better to economize and to create a surplus out of which to buy machinery than it is to pay 20 per cent for the implement.

Q. Can a man earn 20 per cent with agricultural machinery? Can he afford to pay 20 per cent? Can he make it?—A. No, sir, I would say he cannot. I would think it is too great a burden. I would say that he ought not to.

By Mr. Ladner:

Q. I would like to ask the witness a question with regard to the advantages of a Federal Reserve Bank in Canada, based broadly upon the principles of the Old Country, the Bank of England, and on the American system, and having regard to the operation of our Finance Act, and to the fact that we have a branch banking system here rather than separate banks; a system which is also taking the re-discount facilities, open market operations such as they have in the States, and that the Federal Reserve Bank would act as fiscal agents of the Government in taking control of note issues, in fact of the work and functions of the Finance Department under the Finance Act. Could you give us your opinion on that?—A. As I take it, there are three questions involved, that you ask: first, would not the establishment of a Federal Reserve system in Canada based in part on the British model—I assume that you mean there the Bank of England?

Q. Yes.—A. And in part on the model of the Federal Reserve Banks in the United States, would not that by giving us the power of re-discounting, enlarge the volume of credit and increase our banking facilities to such an extent that they would bring lasting and desirable results?

Your second question is: would it not be wise to hand over to such a system the sole right of issuing paper money in notes?

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And, third, that such a system would take care of Government requirements?

In my opinion there is no urgent need to establish such a system in Canada. Re-discounting is necessary in the United States, because the local independent banks that were in existence before the establishment of this system in 1913, in a time of financial stringency even, not to speak of panic, were not able to furnish sufficient credit to their customers and consequently one expedient after another had to be adopted by the banks such as clearing house association agreements and the like. It was essential to introduce the Federal Reserve system into the United States to unify the system and to get the strength that comes with unity. In Canada we have seventeen banks and they are strong banks and I believe that these banks can take care of all the legitimate requirements for short term credit that the country needs. I know a banker will tell you in some instances that he has not got the money in a branch bank. He has the money all right; it is another reason why he does not want to make the loan. I do not know of any condition in Canada under which credit cannot be arranged for working purposes by the banks, on the right kind of collateral and the right kind of security.

In the second place, I would be opposed to handing over to any Government the sole right to issue notes. I think it is a very dangerous thing. Besides, there is a vast difference between the kind of note that a Canadian bank issues and a Canadian Government note. Both notes are perfectly good, both are perfectly sound, but to have a Federal Reserve system of the kind you mention, in Canada, with the sole right to issue paper money, taking over the Government issues and the bank issues, I do not think is desirable.

Q. The idea was not that the banks should be deprived of their present powers of note issue. The proposal is shown in detail in number 8 of the proceedings. I did not perhaps state it as fully as I might have. The idea is that the seventeen chartered banks would be member banks of a corporate body known as the Federal Reserve Bank, in which the directors would be elected in this way; a portion would be nominated by the member banks; five or four out ten; three would be appointed by the Government; and two members, one of whom should be an ex-banker of high standing, should be appointed by the member banks subject to the approval of the Government, so as to bring about a certain balance of authority. Now the note issue functions would be exactly the same as they are now, except that that portion which is carried on by the Finance Department, would be carried on by the Federal Reserve Bank. And the Federal Reserve Bank or that Board would have certain disciplinary powers in connection with unusual banking operations such as the Merchants Bank affair, and they would provide facilities for re-discount in the expansion of business, or ease off sudden restrictions and contractions. Now the point is whether or not that extension of credit facilities in the Federal Reserve Discount Bank would be advantageous to the country, preserving at the same time the present machinery with the skill and judgment of the bankers as we have them now?—A. I think it is highly necessary to unify the banking system in the United States, but not in Canada because we have practical unification now under our branch bank system. There are only seventeen banks and with unity of interest pertaining to the whole system as a bank, say, the Bank of Montreal and its branches, I would be loath to see any such a system established in Canada under present conditions, because it would be designed to control credit and increase it or decrease it in some Board such as you have outlined. It does not matter how many are appointed by the Government or how many by the banks. I believe credit is a private matter. It is not a Government matter. And credit can be best taken care of by those who are dealers in credit. It is a very dangerous thing in my opinion for the Govern-

ment or any semi-official banking authority representing the interest of the Government to go into this credit business.

In the third place, with respect to the taking care of the Government requirements, the Bank of Montreal takes care of the Government requirements to-day. The Bank of Montreal does it, no matter what political party is in power. That bank has been doing it, and if it does not give efficient service at a reasonable cost the Government has the alternative always of transferring its business elsewhere.

With respect to this system a good deal is said to the effect that it would reduce the rate of interest. Instead of reducing the rate of interest, its chief danger would be the inflation of credit. The rate of interest would be controlled more or less as it is in the United States; but there is a very grave danger, in my opinion, in giving that power to a body of men. I don't think it is required in Canada. Our banks have the resources right now. It is not the case that we have not the money. No Federal Reserve scheme superimposed on our banks could increase the credit to a much greater degree than the banks can increase their credit right now. When a bank says it is not able to extend its loan in an individual case, often it is because the security or the character of the borrower, either one or the other is not up to par.

By Mr. Woodsworth:

Q. Mr. Chairman, Professor Swanson in outlining the factors which have brought us to the present situation, said that high wages and strikes raise the cost of production. Would Professor Swanson admit that for example high dividends and over-capitalization, watered stock, inflated land values, would also raise the cost of production, and have raised it?—A. I would have to admit that Mr. Woodsworth, because they have done it, it is a fact; and I hope you will bear in mind that I qualified my statement by saying that I was not directly or indirectly attacking the interests of the working man. But where there was a gap between high money wages and production, the inevitable effect was to increase prices and lay the burden on the farming class.

Q. I am not questioning the statement; I wanted merely to have it safeguarded. In the same way then just as strikes undoubtedly would increase the cost of production more or less, if carried on, that curtailed factory production would also have a tendency to increase the cost of production?—A. I think that is correct, curtailed factory production, yes.

Q. And perhaps it might be pointed out that high nominal wages may not always mean high real wages, high purchasing power?—A. We are bound to admit that, Mr. Woodsworth, because it is true; it is an indisputable fact. And that is the trouble with a great many working men, and not only working men but others, they have fixed their eyes on a plethora of money, let us have lots of money, when what they ought to fix their attention on is an abundance of goods.

Q. And following that same statement, the labour man may not be primarily responsible for a strike, there may be bad conditions, low wages or a great many things that may really be the underlying cause of a strike, and the cause of dislocation of industry?—A. There are some cases in which a strike is the only remedy, much as we may deplore it.

Q. One other question, Mr. Chairman. I do not think that the witness has made it clear why the Government should not itself go into the banking business. He stated the fact that a large number of Western people have the idea that the Government should undertake some of the functions of issuing currency and credit. Later on, in answer to a question, Professor Swanson said that if the Government did not want to use the Bank of Montreal, it might use some other institution. Why should the Government not itself carry on the

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banking business and meet its own needs, or why should it not carry it on in the interest of the public at large, regarding credit and currency issuance as largely a public utility? I think that is the view in the West.—A. Well I fundamentally disagree with that view.

Q. All I want to get at is what your own idea is as to why it would be unsound?—A. The granting of credit is a very delicate operation. May I briefly state the reason why I say it is a delicate and difficult thing? When credit is granted it is essential to see that the security which is offered shall be a definitely known quantity; that it shall be readily converted into cash; that it should be legally pledged; that the pledger's title should be unquestionable; that it should secure a specific debt; that it should be so accurately described, as not to be mistaken; that it should have a sufficient value to cover the indebtedness, the probable expense of collection, all contingent charges against it, if any, and a reasonable depreciation, and so on. All that is a highly complex and specialized industry. The granting of credit requires a long training and a special talent, a special gift, we may say. Therefore I think it is dangerous for the Government to go into the banking field, because the Government might not be able to take care of that business in the way that the chartered banks do at the present time. For instance you know perfectly well that there are those who advocate in the West, and the West is advocating, that our Government extend the issue of Dominion Government notes or legal tenders. Why not increase the money? That is one form of Government banking. I think that that is a dangerous thing because it is the function of the Government to establish the standard of value, and declare what shall be legal tender. When it begins to issue notes to meet the credit requirements of the nation, it is going into the business of banking, and banking requires years of experience, training and special talent, to carry it through.

Q. Cannot the Government command that special talent?—A. The Government might. The Government might establish a particular bank and get that talent. The Government might also have politicians there who would have political gifts but not financial gifts.

By Mr. Good:

Q. Just in that connection, would not the same objection apply to the operation of a railroad. It could be said that that was a highly specialized business, and should be left to those who have made a special study of it.—A. I think that it is not quite parallel. Of course there are those who bitterly dispute that Government ownership even of a railroad, is a desirable thing. But we are in the Government ownership railroad business in Canada because we had to get there. I do not see any reason why we have got to get into the banking business, until the banks fail to furnish adequate credit at reasonable rates.

By Mr. Carmichael:

Q. Mr. Chairman, I would like some information from the witness. He has given us some valuable information, I would say, in regard to the burdens of Western agriculture, particularly in the way of interest charges. I know his statements to be true. Now in our Bank Act, the witness is possibly aware that there is a sort of pretence at setting forth that the interest chargeable by the banks should be seven per cent. Section 91 states that no higher rate shall be recoverable by the bank. Of course that is merely a pretence, because as we know, eight per cent and nine per cent is far more common than seven in the agricultural industry. Now this Parliament possesses the power to fix

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the maximum rate chargeable. Supposing they did so; supposing that section 91, were made watertight; an absolute prohibition of any higher rate than seven per cent allowed by any chartered bank in Canada. What effect would that have on the agricultural industry in the West is the first question; and the second, on banking business in general in Canada; and the third, on banking business in Western Canada? These are my three questions:

What effect would that prohibition have on agricultural industry in the West?

On banking business in Canada?

And on banking business in the West?—A. If the rate were made as you say, watertight, as you understand perfectly well, and as you have mentioned, the banks are charging in the West eight, nine, and even ten per cent, and compounding the interest. They are doing that by discounting the note, which they can legally do. But as you know, if they do not discount and take the interest from the farmer, the borrower, to begin with, and the rate is higher than seven per cent, they cannot collect in a court of law more than five per cent after it is due. What should we do then if the law fixed the rate? What would be the effect first on the agricultural industry; secondly on banking business in Canada; and thirdly in Western Canada? May I answer your second question first? I interviewed one of the leading bankers in the East because I wanted to get the Eastern facts first before I appeared before the Committee, with respect to the rate of interest; and he tells me the current rate of interest is seven per cent. So it would have no effect in the West if that is true.

Q. The current rate is seven per cent, where?—A. In the City of Ottawa, in the East.

Q. In the East in general?—A. Yes. I have no doubt there are some exceptions where let us say, the character or the collateral, are not prime, are not first class. In that case the rate in the East may be eight per cent, but in general they are charging seven per cent and it would not be a very serious thing in the East if the legal rate were seven per cent and if the banks could not collect more. In the West of course it would be a wonderful thing for the farming community if they could get their money at seven per cent. They are not getting it. They are paying eight, nine and ten. It would be a wonderful thing, but the point is, what would be the effect, and that is a very good question, your third question. Can the banks afford to do it? What would be the effect on banking in Western Canada? From the computations made by the banks in Western Canada, taking into account the risk of crop failures, of the loss of market, of the collapse of the market, and the like, we know perfectly well that seven per cent under present conditions would not pay the bank. I believe that some banks would withdraw; they would close their branches at various points. There is more to be said for a rate of eight per cent. But I think it is always a dangerous thing to state by law what shall be the price of anything; of the price of money; or even the price of what the farmer has to sell. We know that during the war, the price of what the farmer had to sell, namely, his wheat, was fixed, and undoubtedly the farmer could have got a higher price if the Government had not stepped in and set the price, which was the maximum price to the farmer. We ought to bear that in mind. I believe that when we can get competition among lenders as against competition among borrowers, such as obtains right now, when we can get more competition among lenders we will reduce the interest rate; and that can come only when we have done something else for agriculture; not only gone into this banking business, but gone into the question of the tariff, and of freight rates, and of widening the markets. I am very pleased to see that the present Government is doing something that is significant in widening the markets for Canadian products; par-

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ticularly in France and elsewhere they are attempting to do that and making an effort—

The CHAIRMAN: Do not express an opinion upon that or you may get into trouble with some of the Committee.

WITNESS: May I say this, I think it is the duty of the Government to widen the market if it is possible to do so.

By Mr. Hanson:

Q. I was going to ask Mr. Swanson if he had examined Mr. Bevington's scheme?—A. No.

The CHAIRMAN: I was going to ask you a question that comes right in here. Mr. Irvine, a member of the Committee, has an amendment, and I would like to read it to you and see if you can give an opinion upon it. He says he wishes to amend section 136 of the Bill as follows:—

“Provided however that notwithstanding anything to the contrary in this Act provided it shall be lawful for any number of people to organize a mutual bank by each member depositing with the proper authorities securities to cover all cheques that they may desire to issue, every kind of security being acceptable that is now acceptable to banks and to the Government; each member being permitted to issue cheques against securities up to a certain percentage thereof; the securities to pay no interest, being held only as securities; these banks being limited to the one function of a clearing house for cheques and to seeing that members do not overdraw their accounts; the cheques to be treated as other cheques, and receivable for all public dues at face value.”

Would you care to express an opinion upon that?

WITNESS: I can only say, Mr. Chairman that I am opposed to it. I think it is unworkable. These securities that would be deposited with the bank, I assume, from the statement that you have read, would be securities that would be mortgages, stocks and bonds.

By the Chairman:

Q. Yes, I fancy so?—A. And cheques drawn against securities in a time of financial stringency would not be readily turned into cash, and I think that is what we require for the general business community, not the circulation of pieces of paper with securities behind them, but the actual production of goods. It is similar to a good many other schemes that have been brought forward in the last three or four years for altering the nature of the security behind the bank note, and I think that both of these scheme are unworkable, impracticable, and Mr. Irvine's scheme is in the same class. If a cheque or any other form of credit is to function and do its work, it must be redeemable in legal money.

Q. It is your view as a student of economics and banking that any instrument used for effecting exchange or in currency must have behind it some redemptive scheme?—A. Absolutely; and ultimately it must have behind it the standard of value of the country, namely, gold.

By Mr. Vien:

Q. I would like to ask the witness if, in his opinion, the credit seeker out West cannot offer ample security for the repayment of the loan at all times?—

A. That is one of the chief difficulties, and the farmer for the West for working capital can only offer his prospective crop, a crop that he may get or may not.

[Prof. Swanson.]

Q. His real estate?—A. For working capital he does not offer his real estate. He may offer to secure a loan already granted, he may give a chattel mortgage on agricultural implements, he may get a loan on his live stock, but the farmer is circumscribed in what he can offer as security for a loan.

Q. I mean particularly with relation to these long term loans that he is seeking now; against those long term loans he is obliged to give security to guarantee repayments. Has he ample security to offer, whether that is real estate or otherwise?—A. The only security that I think could be accepted for the issue of the long term interest bearing securities would be the land.

Q. Has he an ample reserve of that to offer for the loans that he is seeking to obtain?—A. There is ample land.

Q. Value?—A. But land must be differentiated from value of land. There has been a collapse of values in recent years. I do not think that under present conditions he has that security, and therefore I say it is necessary to re-establish agriculture to give the land more value, so that the increased value can support additional credit, if necessary.

By Mr. Spencer:

Q. Professor Swanson said that it would be ample time for the government to go into the banking business when the present banks omitted to furnish an adequate credit at reasonable rates. He has already told the committee that there is a great deal more credit needed in western Canada at least, and he has also shown that the farmers are paying from 9 to 10 per cent, and he has intimated that that is too much. I would like to ask, does not he think these are ample reasons why the government should consider going into the banking business?—A. I say that 9 per cent and 10 per cent charged under present conditions, especially if a bank should compound the loan by giving the farmer a line of credit, and at the end of three months adding interest, and then adding interest to interest, I would say that 9 and 10 per cent are heavy burdens, but I did not say that under present conditions the banks were charging too much; I said there was the great element of risk there. I believe the private investor in some districts in Saskatchewan and Alberta who would offer money to a farmer who is located on land that should have been left as ranching land, when he offers the farmer money at 10 per cent he is taking a very great risk indeed. The banks have been doing that. There are two elements there, the element of interest, and we will add to that the element of insurance. Now, If the government came along and tried to do the same thing I fail to understand how the Government could lend at any reduced rate as long as the risk is there; somebody must carry that risk. Even Governments insure their property; railroads have to insure their property, Whether the property is owned by the Government or any one else that item of insurance comes in.

Q. I would like to ask the Professor a few questions in regard to numerous points. We have obligations coming due each year; last year I understand we had about \$194,000,000 of bonds coming due, and to enable us to meet that we floated further bonds to the extent of \$1000,000,000 in New York. Large quantities are coming due each year. I see in 1923, we have \$483,000,000 coming due and in 1934 \$488,000,000. Now, considering the condition of the country and the taxation that is being borne by the people, and considering also the limit of possible immigrants to this country, and increase of the population in the natural way, do you think it is possible for us to meet our bonds as they come due without fresh borrowings?—A. Well, I would say that that would require the re-incarnation of one of the ancient prophets in a modern individual to answer a question of that kind. I do not think that it is the duty of a government to anticipate the paying off of a huge debt rolled up on war account when these debts come due without also taking into account the possibility of refunding;

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but if you ask me can Canada so enlarge its economic interests and increase its population and develop its resources to carry without undue burden on the individual, the taxes that must be paid on these bonds, I would say that I think so I believe we can face the future with entire confidence, that in proportion to our population and our resources our debts while they are great, need give us no concern, in the sense of concern that really means despair. What Canada requires is an increase in population, a reduction in the burden that is being carried by the farming interests, a development of our resources, and with these things we can face the future I think with confidence as far as I can predict. Nobody can say with any assurance what is going to happen when these bonds come due at the stated periods you mention.

Q. I take it that considering what you said in regard to deflation this morning, you will agree that in farm products at least we suffered a deflation of some 50 per cent. Would you not agree that in the deflation it acted as doubling our debts. For instance, a man in business who suffered 50 per cent through deflation, would not it automatically double his debts?—A. I would say that if the fall in prices were universal, and if the farmer's fifty cent dollar, so to speak, if the decreased price that the farmer got for his products, if they would buy he was accustomed to get in the past there would be no serious result from the decline in prices; it is because the decline in prices is not uniform.

By the Chairman:

Q. There is a lack of equilibrium?—A. Yes, as I mentioned before; that brings the difficulty. I could not agree, of course, that you double the debts of a man by the decrease in prices, but I do say that the farmer must produce more wheat and more beef and more commodities of all kinds on the farm in order to meet his obligations.

Mr. Good: May I suggest, if Mr. Moore is to be heard before one o'clock, that we might postpone questioning Professor Swanson. I have a long list of questions. We have only a quarter of an hour before adjournment.

The CHAIRMAN: Mr. Moore lives in Ottawa, and he would have no objection to returning this afternoon. I thought we could avoid an afternoon session.

By Mr. Spencer:

Q. You will admit, Professor, that if a farmer's assets are deflated 50 per cent he would have to produce double to pay a debt owing on account of the deflation?—A. I would say he would have to increase production; it makes it more difficult to meet the obligation, yes.

Q. He has to sell twice as much goods?—A. I would not say twice as much; I would say he would have to increase production. While that increased production is going forward, there is a change in prices occurring.

Q. You said world conditions caused deflation; you pretty well exempted the bankers from any guilt in this respect. If world conditions cause deflation, I would like to ask how was it that half the world deflated and half the world inflated. For instance, Great Britain, Canada, and the United States deflated, and such countries as Germany, France, Russia if you like, inflated?—A. Because they had two different national policies, that is why, because Germany and Russia thought they could find economic salvation by issuing money, that is why; and we believed, and I think we believed correctly, that we will find economic salvation only by working harder.

Q. Who changed the national policy?—A. I think the people as a whole in Canada have that conviction, that you cannot by manipulating money bring

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about prosperity, although there are some classes in Canada who think that issuing of paper money would give us prosperity, and I believe we need an educational campaign to disabuse their minds of that absurd notion.

Q. You did not exactly answer my question. I would like to ask if you consider the gold basis necessary?—A. I do.

Q. Then I have to admit you have changed your mind since you lectured in Western Canada four or five years ago?—A. I am giving you a very brief answer, you understand. If you want to bring up the question of the gold standard there are a great many factors to be considered; I am just giving you a brief answer to that question, as to whether fundamentally our business must be based on gold.

By the Chairman:

Q. Have you always felt that way?—A. Yes.

By Mr. Irvine:

Q. How are we doing now when it is not based on gold?—A. I think it is based on gold ultimately; we have a large reserve of gold in our banks, and the Government holds a large reserve.

Q. It is not based on gold?—A. That is a matter of opinion.

M. IRVINE: It is not a matter of opinion; it is a matter of law?

The CHAIRMAN: I think you are both right technically.

By Mr. Spencer:

Q. Would going back to the gold basis affect our national debt?—A. What do you mean precisely?

Q. We are not on a gold basis at the present time; debts are not payable in gold; they are payable in Dominion notes, are they not?—A. Yes.

Q. If we go back to the gold basis would it affect our national debt, would it increase or decrease our national debt?—A. I do not think it would do either, because I believe that our notes are as good as gold right now.

Q. Do you think that our problem is one of production or one of consumption?—A. I think the problem is to-day one of production and also one of consumption. I believe there is no possibility of getting strength and solidarity in Canada without increased production by every class. I also think it is one of consumption. We have a great deal of luxury spending to-day that cannot be justified, and though a great many people are complaining about poverty they are suffering from only what I would call psychic poverty; that is, they cannot get those things that they got during the war. There are a great many people operating automobiles and the like, and talking about poverty.

Q. Do you consider the matter of production has not been solved in the world?—A. Absolutely, I will admit that.

The CHAIRMAN: Mr. Irving, I think, was going to ask a question.

Mr. IRVINE: The Professor has presented such orthodox views on the matter that it is not worth while. Perhaps it would be superfluous for me to have him reiterate what we have heard a hundred times already. I would like to ask him what he thinks credit is in a general way, and second, if we have such a thing as a national credit—you object to that question?

The CHAIRMAN: No.

Mr. IRVINE: You objected to the term used.

The CHAIRMAN: In a certain sense in which it was being used. I think there is such a thing as national credit used in a proper way.

WITNESS: If you mean we have confidence in our established institutions—

[Prof. Swanson.]

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By Mr. Irvine:

Q. It is what you mean?—A. I want to know what your question means before I can answer it.

Q. You have been talking about credit, I would like to know what you mean?—A. I think that that is an admirable question, because there has been so much discussion of credit where an entirely different idea is held of credit from the idea that I hold. I would say that there are always in our economic societies two kinds of credit; I would say that there is such a thing as normal credit on the one hand and abnormal credit on the other. By normal credit I mean the utilization of future goods, goods in process of production or present means of paying.. By abnormal credit I mean the use of purchasing power by the banks or any other financial organizations for speculation and for other purposes, consumptive purposes, and not for productive purposes..

Q. Would you answer my question; if there is such a thing as what might be called a national credit?—A. Not in the strictly economic sense that the government is engaged directly in this business. There is such a thing as a confidence in the stability and the efficiency of our constitutional institutions, but there is no such thing of course, as credit in the sense that I have defined it, which is purely an economic thing.

Q. What would you say is behind this government when it borrows money from the United States?—A. The productive power of the Canadian people.

Q. That will be social credit or national credit, would it not?—A. That is the productive power of the Canadian people.

Q. That is credit, you have interpreted credit, as I understand, as the producing power of the people?—A. Normal credit is the utilization of goods in process for the securing of present purchasing power.

Q. And then when the government borrows money from any other country or from any individual for that matter, upon what does it borrow it?—A. Of course it must borrow it just as any one else borrows, upon some sort of process of production, but in this case the bank has a direct supervision or control or guidance of the process of production. The government is borrowing upon the belief that the people will continue with resources, natural resources and other resources to produce.

By Mr. Hanson:

Q. That is confidence?—A. Yes.

The CHAIRMAN: Mr. Good, how many questions have you to ask?

Mr. GOOD: I have more than I can put into five minutes.

The CHAIRMAN: Then if it will be agreeable, we will meet this afternoon at 4.30 and dispose of Professor Swanson and Mr. Moore. Tomorrow morning we shall meet at eleven, and our business will be the consideration first of clauses of the Bill to which no amendments have yet been offered, and I hope there will be a good attendance of members of the Committee.

The Committee adjourned, until 4.30 p.m.

AFTERNOON SITTING

TUESDAY, May 8th.

The Select Standing Committee on Banking and Commerce resumed at 4.30 p.m., Hon. A. K. Maclean in the Chair.

The CHAIRMAN: Gentlemen, please come to order. Will you proceed, Mr. Good?

[Prof. Swanson.]

By Mr. Good:

Q. Mr. Chairman, I made rather copious notes this morning, and I hope you and Professor Swanson will have patience while I ask a number of questions which I think are entirely pertinent. You said, I think, Professor Swanson, this morning, that the changes in the price level were, in your judgment, serious; but that they were even more serious when the changes were not uniform. That is, more marked in one industry than in another. I want to ask you in that connection, how far can the banks alter the general price level?—A. You mean deliberately?

Q. No, I do not think it is necessary to enter into the question of whether of whether they do it deliberately or otherwise, but how far is it possible for banks, through controlling the volume of money, to alter the price level?—A. To a very serious extent; to a very considerable extent, perhaps I should say, because during a time of speculation and of business expansion that has been carried too far forward. It is quite possible and indeed, it has occurred on a great many occasions, that the banks may reduce the prices by curtailing credit, through the device of raising interest rates, making it more difficult to borrow, and by refusing to extend loans. On the other hand, even under what we call "normal conditions" there is an element of credit in the situation always, which I think it is almost impossible to eliminate. We may call it "speculative credit". That element is there, and part of that speculative credit is manufactured by the banks. It is manufactured by the banks, not deliberately but in the ordinary course of business.

Q. Pardon me a moment. What do you mean by the words "not deliberately"? There must be an intention to do so, whether or not there is any conception of the consequences. I mean, the immediate act is deliberate, is it not?—A. Yes.

Q. You mean that they have no—?—A. Intention of raising prices.

Q. —of the ultimate consequences?—A. Yes. I mean it is just because of the nature of the loan to begin with, or because of the change in the business situation before the loan is repaid. Quite legitimate credit, or normal credit, may, in the course of two or three months, become abnormal credit, and again, I believe that credit granted by the banks for productive purposes does not usually raise prices, but that credit granted by the banks—and there is by every financial institution a certain amount of credit of this nature—that does not issue in production, must inevitably raise prices.

Q. You said a moment ago that credit issued for productive purposes does not, or need not raise prices?—A. Yes.

Q. That would be, I presume, on account of the fact that the increasing volume of money would be met by a corresponding increase in the volume of trade. Is that right?—A. I mean to say this, that when a borrower receives credit at the bank, he receives purchasing power which is a demand for goods. Let us take a concrete case. A farmer goes to a bank on April 1st and gets a loan of \$500 for three months, with the understanding that the loan will be renewed for a further three months if necessary. The farmer uses the \$500 in order to get seed, and perhaps some implements, or household supplies. When he receives the \$500 from the bank, he adds to the purchasing power of the community, increases the demand, and all other things being equal, prices will rise. In the fall, however, he has a supply of commodities to put on the market, namely wheat and other products. Now, if we consider that at the time the farmer is borrowing in the spring, others are paying, under normal conditions the demand and supply are maintained in equal degree, and there is no great change in prices.

[Prof. Swanson.]

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Q. Would you admit, in that connection, that the extension of credit may be a factor in production?—A. I think that the extension of credit is a factor in production.

Q. That is, that production can be either increased or decreased by the control of credit?—A. Assuredly.

Q. My second question in that connection is this. How far can banks prevent uniform changes, not in the price level, but in the prices of commodities? You stated before noon that one of the great misfortunes, one of the great difficulties which the farmers in the West were up against was that the price of their particular products fell more rapidly than the prices of those things they had to buy. The question I ask is this; how far is it in the power of the banks to control that unequal deflation or inflation, the unequal changes of price?—A. Credit is only one factor in price making. I think, in so far as credit is used for productive purposes, it always, by the increase of goods, tends to steady prices, but if we have a situation, for example, such as existed on the railroads during the war, when the cost of raw materials and all the things required for transportation advanced; wages advanced and freight rates advanced, and naturally that commodity, transportation, got out of due relation to what the farmer had to sell for, when the period of readjustment took place. While wages increase more slowly than general prices, they also show a tendency to decline after prices in general have fallen.

Q. They decline more slowly?—A. Yes, sir. I would say, then, that credit is not the only factor to consider there, that there are a great many other factors.

Q. Perhaps you would express an opinion as to this, that the control of credit might be one factor in the unequal change of prices?—A. Yes, and I think that is one basic reason why the control of credit should be in the hands of men who understand not only business but the nature of the business organism of our country, because as I remarked before in my preliminary statement, the banker through his control of capital really controls the whole organization, that is, working capital. If there is no capital furnished, there is no production from the land to sustain the farmers, the prices of commodities in turn decline, and funds are pledged again for the support of loans elsewhere, and there is a general demoralization of business as a result.

Q. Would you say therefore that those in control of our general banking policy should be men who understand not only the technique of banking, but the ultimate effects of any policy they might inaugurate?—A. Yes. I said this morning that I believed that was not only necessary at the head office, but more particularly is it essential in the case of the branch managers. I think it is fair to say this, that too often the branch manager is a banker only, I mean a banker in a technical sense, making loans and discounts. I think if we had more men like Mr. Vere Brown, whom I mentioned this morning, and others who could be mentioned—I know some, and members of the Committee could name others—where we have men who make an economic study of the conditions in their banking districts, there is far greater probability that the loans advanced will result in greater production and greater prosperity.

Q. I take it that you have not read very much of the evidence that has been given here hitherto?—A. No. I have not had access to that evidence. I have seen newspaper accounts, but those newspaper accounts have necessarily been curtailed.

Q. Would you venture an opinion as to the general understanding by bankers of the economic implication of their business? Perhaps that is an embarrassing question. Professor Fisher gave it as his opinion the other day that there were very few bankers who had any knowledge of the social import and implications of their business.—A. I would rather make a general state-

[Prof. Swanson.]

ment to this effect, that the managers of several banks, the general managers, realize the need of instruction for their men in banking, in the mechanism of banking and in the nature of banking, as well as in general economic conditions.

Q. What would you say as to the viewpoint of the banker who claimed that banks and bankers had no control over prices?—A. Would you repeat that question?

Q. What would you say of the point of view, or of the outlook or intelligence of a banker who claimed that banks and bankers cannot and do not affect the price level?—A. I would say he was very deficient in his understanding even of banking. May I complete the statement, Mr. Good, if you please, that I started before to make? That is to say, that I know the general managers of several of the banks realize the importance of training their men, and they have arranged such a course I believe at Queen's University, and that has been carried on for time time. I know also that in the city of Toronto the bankers have organized an association to study banking, and they have professors from the University of Toronto and other places meet them and discuss the situation, because they realize that it is not only necessary to revolve the wheels of banking but to understand why the wheels go around.

Q. Would you consider it a menacing and a dangerous situation for the country if those in control of credit, the distribution of credit and so on should be ignorant of the wider implications of the business?—A. Decidedly so.

Q. For instance, would you think it a serious matter if bankers, or the chief bankers, should be unaware of any power they may have over the price level?—A. I can hardly conceive that we have bankers in a position of power, trust and responsibility in this country who do not realize that.

Q. You are not aware that several of the general managers of the Canadian banks have denied that, in this room, in their evidence; you are not aware of that, I suppose?—A. No. I would like to make myself perfectly clear upon that point, Mr. Good. In the granting of credit, that is one factor to be considered in price making, but it is only one factor.

Q. Perhaps I have failed to make myself clear, but this was a question put to more than one of the bankers who have appeared in this room, that the banks had control over that volume of credit instruments which operates through cheque books and so on outside of our paper money and our metal money, and that that was a large part of the instruments that function as money in this country, that that was a large part of the volume, and that they could influence the price level. That was vigorously and definitely denied by most of them that have appeared here. If you had read the evidence you would have noticed that. Are you of the opinion that the stabilization of the price level in all prices of commodities is eminently and highly desirable?—A. I am.

Q. Have you any suggestion to make in that connection as to a practical method of securing that desirable result, or even approximating it?—A. I think the chief thing to do as far as banks are concerned is to be quite sure that the loans that are made and the discounts are utilized for productive and not for speculative purposes, that is, speculation that leads to inflation and to the disparity between prices in various industries.

Q. Have you read Professor Irving Fisher's book on this subject "The Stabilization of the Dollar"?—A. I have, in days gone by. I followed that for a number of years.

Q. Have you any opinion to express with regard to the feasibility of any of his suggestions?—A. I think the theory is a very good theory, but I do not believe it can be carried into practice.

Q. I shall return to this question a little later along another line. You stated this morning that the bankers are in a dominant position to shape production.

[Prof. Swanson.]

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Would you therefore state quite definitely that those who grant credit are the determining factor in industrial policy, that they determine the industrial policy of a country?—A. I would think that they are in a strong position to shape a policy, that they are one of the chief factors or forces in shaping a policy. There are others, of course. The mortgage company for instance that grants a loan to a farmer to develop his land, every financial institution that furnishes fixed or working capital is in the same position.

Q. Under present conditions do our financial institutions generally—I am not speaking specifically of the Canadian chartered banks—constitute the dominant factor in the determination of industrial policy?—A. I cannot see it otherwise, because without this financial support no industry could go forward.

By the Chairman:

Q. You must have somebody with initiative and brains, who is as big a factor as the bank, before the bank is called in at all?—A. Yes.

The CHAIRMAN: This is for my own information. Do you mean, Mr. Good, that other financial institutions are the major factor?

Mr. GOOD: Yes, Mr. Chairman. They are what you might call the final or the ultimate deciding factor.

The CHAIRMAN: Suppose you have an industry that requires a million dollars of capital, and some man of brains and initiative goes to his friends and borrows the million dollars; he has his friends' money and his own ability, but he wants say \$100,000 more, he goes to the bank for it. There are three factors. But the banker is not the major factor in it, is he?

Mr. GOOD: Having his own money, and particularly having friends with money to loan, that would be the dominant factor.

The CHAIRMAN: It means that they have saved something out of production. The banks may hold his money as a trustee. If you put that question too bluntly, Mr. Good, one can easily see fallacies in it.

WITNESS: I would like to make myself clear upon that. Of course what I mean to say is the industrial magnate, or the small business man, co-operating with the banker in formulating a policy—it is the business man who comes forward with the idea. If the finances are withheld, I do not care from where they are derived, an industry cannot go forward, not under the pecuniary conditions that exist to-day. In the case the Chairman has instanced, I would say that the friends who provided the million dollars had money on deposit with the banks, or securities, as the case might be. Perhaps I should say further that the banks are in business to make money, and wherever a business man can come and show that there is a legitimate opportunity to make money, money will be forthcoming.

By Mr. Good:

Q. That is sufficient. That leads to my next question, as to what determines the granting of credits at the present time. I presume the banker's first inquiry would be, Is this a sound financial proposition, are you going to be able to repay this loan? I think it therefore follows that he would be generally indifferent towards the question of the social utility of the enterprise.—A. I think it is fair to say that the banker is in business to make money, just as most other people are, and whether the funds are to be used for a cigar factory, a tobacco factory, the making of silk or the making of steel, from the point of view of the bank it will not make much difference.

Q. Would you not say that the distribution of credit would be generally wider if it were made by a local—I am speaking of the local distribution of credit—if it were made by a local organization than by a bank manager?—A. Than under our present Canadian system?

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Q. Yes.—A. Not if we had men of the type of those bankers in charge of local banks who had vision, and who had seen that the bank could not flourish in an agricultural community if that agricultural community did not flourish. We can have all the advantages of the local banks of the United States, provided we have the right men in control of the branch banks.

Q. How can you select the right men for the control of the branch banks; who is to select them?—A. The officials of a bank must select their men.

Q. How far are they free from instructions from Headquarters?—A. That is a disputed question, but I believe in the West a local manager can lend all the way from \$1,000 to \$5,000 on his own initiative.

Q. Coming back to the question I asked you a moment ago, I might make my question a little clearer if I give you a special case. Supposing, for instance, in a certain territory a brewer or a distiller came along for a loan; he could show the banker possibly that his was a very profitable enterprise, that it would pay a high rate of interest, and that the money would be sure to be repaid back again. Would it be different if that person came to a co-operative Board who were interested in the social and moral life of a community?—A. It seems to me that if it is a legitimate business, if it is legal, it is not the business of the banker to say what is right for that community to do. Take the question of brewing—out in British Columbia and in some other provinces, for instance in Quebec, they dispute bitterly about that. You can go all the way from brewing beer to the manufacture of silk, the making of tobacco, the making of cigars, the making of chewing gum; I think since the business is legal it is not for the banker to direct the flow of capital into channels which will make for what you call the social life of the community.

Q. Let me give you an illustration to bring out my point. You spoke this morning about the concentration of credit control, and you intimated that you saw some danger in the Federal Reserve System, because it would concentrate the control of credit. Would you think there would be any danger in an institution in Canada at the present time having the concentration of control in the hands of the Canadian Bankers' Association?—A. Not as long as we have depositors and stockholders that take an enlightened interest in public affairs in the Dominion. I mean to say that the danger of financial control arises when a comparatively small group of men manage the corporation, and the other directors or stockholders permit them to function without their showing any direct interest in their activities.

Q. Do you think that those in control of the banking privileges and business of Canada at the present time constitute any large section of the people?—A. Well, they represent a great many thousands of investors, of course.

Q. You mean of shareholders?—A. I mean of shareholders.

Q. How far does the average small shareholder affect the policy of a bank?—A. Well, probably not to a very large extent. But that is due to a lack of interest of the shareholder.

Q. Do you see any element of danger in the present situation in Canada, as compared with the co-operative banking system?—A. As compared with what co-operative banking system?

Q. As compared with a co-operative banking system where the control of credit would reside with the representatives of the people duly elected?—A. I would say that there is just as great danger in co-operative banking as if banking was on a big scale, because you might not have men there with power and ability combined. Remember, I would like to say this, that co-operation is a great thing. But co-operation depends upon character, just as much as private enterprise does, and we have had co-operative organizations innumerable that have gone under because of lack of character. You will find character is essential, no matter what form of organization it happens to be.

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Q. What in your opinion would be the advantages of centralized control?
—A. As under the Canadian banking system?

Q. Yes, or any centralized control of credit?—A. The chief advantages of course would be uniform action in a time of crisis or financial stringency, or national danger.

Q. Would you say that centralized control could, if it were wisely exercised, stabilize the prices by adjusting interest rates?—A. You mean, as they have it in the United States?

Q. Well, no, I have no particular reference to that. I understand the suggestion has been made, and I think it was made at the Genoa Conference, that the banks should make an effort to stabilize the price levels by a variation in the interest rates. I am asking you if that would be an advantage of centralized control?—A. Yes, under any system. We do that under the Canadian system. It is done under the British system. It is done by the Bank of England. In an emergency the Bank of England raises its discount rates and makes it more difficult to borrow from the Bank of England, makes it more difficult for customers to get credit and leads to contraction then of credit.

Q. So if bankers are wise and public spirited, they have an opportunity to assist the country?—A. Undoubtedly.

Q. If they are ignorant and lacking in public spirit, they have corresponding power to do damage?—A. Of course.

Q. Speaking of the situation in Canada, at the present time, how far and in what ways does competition between the banks operate?—A. I would say that there is competition in service, for one thing.

Q. Would you say that there is any competition in interest rates?—A. There seems to be a uniformity of interest rates but I am loath to believe that that comes about by any collusion among Canadian bankers. I believe the interest rate in the West is higher because of the greater difficulties under which loans are made there; the higher cost of doing business, especially in the earlier days; and the greater risk in farming under the present conditions.

Q. We have had it represented here that particularly in Western Canada there is a multiplicity of banks in small places. For instance, I recall, that in the town of Weyburn Sask., there are six banks. And the question has been under discussion as to whether or not that duplication of machinery is a factor in the existing interest charges in the West?—A. Well, of course we have the same duplication in other lines of business. We have a tremendous duplication of milk dealers. We have a great duplication of retail stores.

Q. What I am trying to get at is, how far the competition between the Canadian banks is of advantage to the public in Canada. Evidently it leads to a waste in many directions. Now what are the advantages? We see the disadvantages?—A. They are the usual advantages of competition. That is to say there is the service that is given by the competition. If we had one bank only in the community there would be perhaps a larger opportunity for the local banker to cease to give those services that he is obliged to give when there is competition.

Q. What kind of services have you in mind?—A. Well I have in mind a great many things.

Q. Not cheap interest rates, lower interest rates?—A. No, I mean among other things the consideration that would be given to the borrower.

Q. Renewal of loans?—A. Renewal of loans and the like.

Q. This matter has been up before the Committee and personally I would like more light on it. I find difficulty, Mr. Chairman, in seeing just how the competition between the Canadian banks is giving us any particular advantage. I see a number of disadvantages.

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The CHAIRMAN: Professor Swanson could hardly be expected to answer that as well as the other witnesses who were here.

By Mr. Good:

Q. What would you think should be done, supposing there should be an amalgamation of the Canadian banks, and we should have one bank; would that be a condition of affairs that would be in the interest of the Canadian public?—A. I think not.

Q. How far should competition extend? Would you think it might be quite proper to have two or three banks, or would it be better to have seventeen as we have now?—A. I think it is impossible to say.

By Mr. Shaw:

Q. We will have to try both out?—A. I think it is the case of the survival of the fittest, just as it is in any other business.

By Mr. Good:

Q. With regard to the recent deflation, you stated this morning that it was absurd to charge the banks with having forced down prices and that the slump in prices was due to a world-wide condition. Have the Canadian banks no responsibility in this matter?—A. They are one factor in the situation of course. In so far as they contracted credit at the time when prices were falling, and compelled producers, farmers and others, to throw their products on the market, of course to that extent they were a factor in the price decline.

Q. Was it possible to have prevented that decline in price, to have maintained the price level where it was say, in 1920?—A. I don't see how Canada could do it, when the United States, a much more powerful nation, found it impossible.

Q. Would it have been possible by joint action of say Great Britain, the United States and Canada?—A. It might have been possible if we had been able to effect the settlement of the reparations question, and put an end to the bitter dispute between France and Germany and to have got unity of action among the Great Powers, a great deal would have been done to stabilize credit and conditions.

The CHAIRMAN: Has any member of the Committee any motions to make this afternoon? If so, it might be well to make them now, so that they can go to the printer.

Mr. SHAW: What is the last date fixed for filing amendments?

The CHAIRMAN: No date has been fixed, but we want to proceed to-morrow to the consideration finally of the different clauses of the Bill.

Mr. SHAW: So that I take it we will be at liberty to move amendments even when they are under consideration?

The CHAIRMAN: I suppose so. Go on then, Mr. Good.

By Mr. Good:

Q. Is it your opinion that deflation could have been prevented by a certain amount of international action?—A. I don't say prevented, but prices might have been stabilized and that we would have had a gradual readjustment instead of a sharp decline in prices.

Q. Do you regard that sharp decline in prices as a very great misfortune?—A. I do.

Q. And you think banks generally, not speaking of the Canadian bankers specially, could have controlled that or might have eased it off?—A. Banks and governments.

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Q. So that it was a misfortune due rather to ignorance than to anything else?—A. I don't know that it was due to ignorance. I think we would just have to say to human nature. Why is not this quarrel between France and Germany composed? I don't think it is due to ignorance; I think both understand the issues involved, but it is due to national jealousy and passion and other human frailties.

The CHAIRMAN: Mr. Good, down in my province of Nova Scotia the fish dealers deal in salt fish. There came a very sudden deflation. I do not think it was due to the banks refraining from supporting them, but their markets are in the West Indies and in the Mediterranean countries, and those markets could not or would not buy. In a case of that kind would you say it was due to deflation by the banks or to circumstances over which no Canadian had control?

Mr. GOOD: I am not expressing my own opinion, Mr. Chairman. I am trying to get the opinion of Professor Swanson. I am trying to form an opinion myself; I have no definite opinion as yet on a good many of these questions.

By Mr. Good:

Q. We had Professor Irving Fisher maintaining very definitely the other day that deflation was no cure for inflation, nor inflation a cure for deflation. What is your opinion on that? Would you think it advisable after a period of inflation, I mean of rising prices, that it is advantageous to drop down again to compensate for the inflation?—A. I think it is always well to get the speculative element that is not concerned with production curtailed and eliminated.

Q. Was deflation brought about in order to approach more nearly to the gold basis?—A. I don't agree that deflation was brought about. I think deflation in part happened. But in so far as the banks were concerned, they were anxious to strengthen their position and to maintain their reserve.

Q. How could a thing happen that was in the power of man to control? How could it happen without the intervention of the human will?—A. Well it happened in this sense, that after the Armistice instead of the nations, in Europe particularly, beginning the work of production, and the readjustment of economic affairs in their own countries, the quarrels continued; armies were maintained, in Poland and in Russia. And as far as Canada is concerned and the United States, these things happened, they happened because we had no control over them. We could not control Russia.

Q. I get your point. My question is this, as to whether or not the effort to restore some previous proportion between the amount of paper instruments outstanding and the amount of gold available for redemption, might not have entered into the question?—A. I think that the real reason for curtailing loans as far as the bank was concerned was to make sure that they were strong enough to go through that crisis. If the banks had failed, along with business, we would have had prostration of the economic life of the entire nation.

Q. You think then the banks may have been influenced to save themselves?—A. Well, and to save the entire economic structure.

Q. In that effort to save themselves would the loyalty to the gold basis be a factor operating in their minds?—A. I think it always is a factor that the banks take into account.

Q. You are aware of what happened in 1914 when we abandoned the gold basis for the time being?—A. Yes.

Q. If that attitude of mind which prevailed then had persisted, would it have been possible for the banks to have left that consideration out of their minds and said, Now we are getting along very nicely, we don't need to curtail credits in order to make it more easy or more possible to redeem our notes in

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gold?—A. I think the chief element in the situation was not the factor of gold but the speculative element in the loan.

Q. Have you given any consideration to the proposal to stabilize prices within a country? Professor Fisher stated that it was quite possible in his opinion to stabilize prices within Canada irrespective of what might be done elsewhere.—A. I fail to see how that can be done unless we shut ourselves off with a Chinese wall and cease to trade with other nations, because, as long as we import and sell goods, those importations and exportations are bound to have an effect on price making in the Dominion.

Q. Does the experience of Germany have any bearing on that question? They have followed the reverse process and their currency has increased beyond all conception almost. Has that a bearing on the possibility of one nation controlling their own prices inside their own boundaries?—A. I think that the German experiment shows that it is done only at the peril of the nation concerned.

Q. What would have happened to Germany if she had attempted to stay on the gold basis or to return to it immediately after the Armistice?—A. It was impossible in the case of Germany, because of the methods followed in Germany in financing the war. The trouble in Germany started during the war. Instead of taxation and the raising of loans in the normal way, they had recourse to the issue of paper money by the banks. That is when the fatal mistake was made, in my judgment. Germany did not gain anything by the easy expedient of raising money in that way. Germany is to-day suffering from it.

By Mr. McMaster:

Q. Did not all nations have a recourse to that?—A. Yes, they had.

By Mr. Irvine:

Q. Did not Germany decrease her national debt in that way?—A. Not if Germany makes good her paper money.

Q. Makes it good to whom?—A. Makes it good to the holders of the debt.

Q. She has paid her national debt with her own money, and does not owe anything.—A. I am afraid I don't get your point, Mr. Irvine.

Q. I cannot make it any clearer.—A. You say she has a depreciated money?

By the Chairman:

Q. And that she has practically wiped out her internal debt and all state obligations?—A. Well, of course she has not, because money if it is worth anything has to be redeemed. It has to be redeemed by someone.

By Mr. Good:

Q. A good deal has been said about the redemption of bank notes. What is your conception of that?—A. Whether they should be redeemed in gold or not?

Q. Are they redeemable in gold?—A. Yes, I would say they are redeemable in legal tender money.

Q. A certain percentage?—A. All of them.

Q. Are all the credit instruments and paper money in Canada redeemable in gold?—A. No, the bank notes I understood you to say.

Q. Are the bank notes redeemable in gold at the present time?—A. In legal tender money.

Q. That is Dominion notes?—A. Yes.

Q. Are the Dominion notes redeemable in gold?—A. For the time being, no.

Q. How much of our paper instruments could be redeemed in gold, only a small fraction?—A. If all were presented at the same time a very small fraction of course.

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Q. Is there, in your opinion, any particular amount of gold that is desirable to keep in reserve for the sake of those who want the paper money redeemed?—A. I think that depends largely on the habits of the people; in Canada and in all Anglo-Saxon countries a very small reserve is necessary as compared with France for example.

Q. Would you say the effect of the gold is psychological?—A. In part; it is due to the business habits of the people.

Q. I think you stated this morning that you have not examined the scheme proposed by Mr. Bevington, and therefore have no opinion to express on it?—A. No.

Q. Have you read any of the books of Major Douglas, who appeared before the Committee?—A. No, I have not seen them.

Q. You have no opinion to express on his proposals?—A. No.

Q. You have read Professor Fisher's book?—A. Yes.

Q. You regard it as desirable that some stabilization should be brought about but you think there are greater difficulties in the way than he would make out?—A. Yes I think that money is only one factor in the stabilization of prices.

Q. You stated this morning that the present Canadian banks can take care of all the short term loans? Would you think there is room for an investigation as to whether they do take care of them and as to whether or not there is any discrimination as between different industries?—A. It is my opinion that the Canadian banks, as is indicated by a study of the expansion of loans from 1914, for instance, have largely come to the support of industry. I do not know personally of any discrimination made between the various classes by the banks. I know in the West they have come liberally to the support of the farmers, but the banks cannot give that type of credit that is urgently needed in the West.

Q. I intended to ask you something about the Saskatchewan Government loans. I will leave that. You stated this morning that the Government's right of issue was dangerous. Why?—A. The issue of bank notes?

Q. Of paper money.—A. No. what I had in mind, Mr. Good, was that if the Government took over all issue of paper money that that would be an undesirable thing.

Q. Why?—A. Because the banks are in close and intimate relationship with business enterprise and with the needs of the country, and the Government is not.

Q. I think you have not got what is in my mind. Supposing the banks were using the Dominion paper currency rather than their own bank notes. Would that be dangerous?—A. It would not be dangerous but it would be awkward, it would be more costly.

Q. Why?—A. Because the bank note is practically merely a form of credit, while the Dominion Government note before the war was almost the equivalent of gold certificate.

Q. What would be the objection to exchanging the bank note based on the assets of the bank for a Dominion note based on the assets of the Dominion, using the one in place of the other? I understand the Commonwealth Bank of Australia issues all the Australian paper currency?—A. I am not aware of that.

Q. I understood you to say this morning that if the paper money was issued by the Government instead of by the banks, there would be a danger in it?—A. What I mean by that is this, before the war in Great Britain, for instance, the Bank of England practically issued all the paper money. The Government did not issue any paper money at all. Now, the United Kingdom was the big capitalistic nation in the world before the war; it had the largest amount of fluid

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capital that worked effectively, and I think it would have been a decided loss before the war if the Government had been issuing the money and not the bank; for the simple reason that the Government is not in as close and vital relation to business as the bank is and cannot be.

By Mr. McMaster:

Q. But the Government of England was in very close and vital relationship with the Bank of England?—A. Yes; the Bank of England is a private bank, but it does the Government business, and to a certain extent it has always been looked upon as the national bank.

By Mr. Good:

Q. I did not get your point of view there as to the dispensing of credit by the banks. It seems to me the banks might dispense just the same amount of credit in the same places using the Dominion notes as they can using their own notes?—A. If the banks in Canada gave up the right of note issue and the customer came in and said: "I don't want an account on your books against which I can draw cheques, I want the real money," as he would say, that is to say paper money, the banks would be obliged to give in that case Dominion Government notes. Now the banks could not get Dominion Government notes for nothing, they would have to tie up some of their reserve.

Q. They could not get their own notes beyond a certain limit at the present time?—A. Under the present conditions it is just about as flexible a thing; it is just about as easy a matter for the banks to issue one of their notes as to make a deposit account; it is a credit instrument.

Q. It would be more expensive to issue a Government note than a bank note?—A. Simply because a Dominion note would have to be the equivalent of gold and the banks would have to give something valuable to keep them on hand.

Q. Are not bank notes equivalent to gold in the same sense?—A. Yes, but the bank note in the case of the bank itself is only a credit instrument.

Q. Why would a customer be more likely to ask for gold for a Dominion note than for a bank note?—A. He would not be.

Q. Where is the danger of being asked for gold in changing from a bank note to a Dominion note?—A. I do not say that it is exactly a matter of danger; it is a matter of loss of efficiency in the handling of credits of the nation.

Q. The banks admitted here that the right of issue is worth about I think between one and two per cent on their note issue. They admitted it was a special privilege, but that there were compensating advantages to the public; I want to get your opinion as to the propriety of withdrawing that right of issue from them?—A. I would not withdraw the right of issue, because I believe it is the function of a government to determine what is legal tender, to establish the standard of value, but it is the function of the banks to furnish credit, and a bank note is merely a type of credit.

Q. You said this morning that the granting of credit was a specialized business, and I ask you as to whether or not the running of a railroad or something of that sort is not also a specialized business, and if any objections to a government banking system could be held, then the same objection would be held to the operation of a railroad, or say the Hydro-Electric system in Ontario?—A. Not to the same extent, I think.

Q. Would you suggest that the Hydro-Electric system in Ontario is less specialized than the banking business?—A. The Hydro-Electric system is for a special object, a special business; the banking business touches every economic activity in the nation.

Q. Supposing the present banking staff were hired by the people of Canada to do the specialized work, what would be the advantages or disadvantages?—A. I would think the danger then would be political control.

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Q. The same with our railroads?—A. Yes.

By Mr. Woodsworth:

Q. And political control in that case would be more serious than the control by a few private financiers as it is now?—A. Well, I don't agree, of course, that there are just a few financiers that control the Canadian banks; I think there are thousands of stockholders in the Canadian banks.

By Mr. McMaster:

Q. What control do you think the small stockholder has over the management of a bank in which his money is invested? Have you seen any signs of any effective control by the small stockholder over the fortunes of the bank in which he owns shares?—A. I should say this, that immediately a Board of Directors of a bank do something that becomes public that is disreputable they will suffer both from the action of the stockholders and the action of the depositors, from both.

Q. Will you just follow that out in connection with the merger of the Bank of Montreal and the Merchants Bank, and see how that would work out in that case?—A. Yes.

Q. The shareholders had the return on their investment cut in two; that is the first point; following it on from that what control did they exercise?—A. I understand that the Merchants Bank, of course we all know that the Merchants Bank did not fail; in general talk there are a good many people talk about the failure of the Merchants Bank, but the Merchants Bank did not fail; the Merchants Bank was taken over by the Bank of Montreal in a business deal; no depositor lost a penny, no noteholder lost a penny, and the loss to the stockholder I understand was something like \$30.

Q. His revenue was cut in half?—A. Well, he received a bonus of \$10 and \$124 in stock.

By Mr. Irvine:

Q. You would say then that it was a desirable thing that occurred in the case of the Merchants Bank?—A. Decidedly not; but if the Merchants Bank had attempted to continue business after this had become public, I am quite sure that it would have had a serious effect upon the bank depositors, many would have left the bank under those conditions.

By Mr. Shaw:

Q. Perhaps you would agree that the ordinary shareholder of a bank has about as much influence in the direction of the policy of a bank as the individual voter would have over the policy of the Minister of finance.

The CHAIRMAN: There is too much opinion being expressed.

By Hon. Mr. Fielding:

Q. Is there any difference in the power of a shareholder in a bank from that of a shareholder in a flour mill or distillery?—A. No.

By Mr. Good:

Q. Supposing a man goes to a bank and gives his note secured by his assets in exchange for the bank's note secured by the bank's assets, what justification in ethics is there for the bank to charge interest on their note, when the individual cannot charge on his note? What service does the bank perform for which it can legitimately claim compensation?—A. I think that it performs very great service; in the first place—

Q. I would like you to state?—A. In the first place the individual in making his note can only use it in a local community where he is known or where people

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have sufficient confidence in his integrity or in his financial standing to take it; when he exchanges his note for the bank's note that has a universal circulation within the country at any rate, and it has the guarantee of the bank that the note will be made good.

Q. What further service?—A. And the bank note can be used as purchasing power of course, while the individual cannot take his note anywhere and use it for purchasing power, but only where his note is acceptable.

Q. Would you say they perform a bookkeeping service also in keeping track of the customers' transactions?—A. To a certain extent.

Q. Would you say that they perform a service also in appraising the value of his securities?—A. Yes, I would say that.

Q. These are the three lines in which they perform service. Do you believe any country can operate on fiat money if they were intelligent enough to do so?—A. I do not know any country that has done it.

Q. Professor Fisher said it was a question of intelligence of the government, what is your opinion; have you any opinion as to that?—A. I do not know where we would get this super-intelligent government.

Mr. IRVINE: We have it now, Mr. Chairman. We have fiat money, and they are operating it.

By Mr. Good:

Q. Are the departments of economics in the various universities able to instruct the government to operate with fiat money and save all the expense of keeping a reserve of gold doing nothing?—A. As far as I am concerned I should say that my department would never advocate the using of fiat money; and I may repeat what I said this morning I do not believe we have fiat money in Canada here, notwithstanding the remarks that have been made.

The CHAIRMAN: We have had that half a dozen times from both of you; we do not want it again.

By Mr. Good:

Q. You stated this morning that the economic salvation of this country was to be looked for by harder work on the part of the individual. That was said by one of the bankers, and I asked Professor Fisher what he thought of it the other day, and he said in his opinion it was a very very small factor in the solution. I want to ask you if production can continue if consumption is in any way blocked?—A. Production cannot continue if the goods pile up and are not distributed.

Q. Are there any conditions when the issue of new purchasing power would make potential wealth actual?—A. That is always the case in my judgment where the credit is in a legitimate form.

Q. Do you think that during the war, shortly after the outbreak of the war there was a vastly increased production or in respect of which it might be said that it was due very largely to financing; did the method of financing bring about the increased production?—A. The methods of financing were one very important factor in speeding up production; there is no doubt about that.

Q. Could it be said that wise financing would overcome the difficulties that we are facing at the present time? After the war in your opinion was it necessary for the world to go through the misery and pain that it has gone through since the end of the war on top of the misery and pain that occurred during the war?—A. It was not necessary, of course. A lot of it could have been avoided.

Q. Have you any idea as to how it could have been avoided?—A. Well, I think it takes a long time to educate—

Q. I am not asking for specific ideas. Have you any idea as to how it could have been avoided?—A. Yes. I think if we had a League of Nations

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that functioned, with the United States as a member, the leading powers of the world, that that would do a great deal to give us a condition under which we could carry forward normal production.

Q. Do you think that in the solution of that problem the financial methods are one of the chief considerations?—A. I think financial methods are one of the factors.

Q. You stated this morning that we cannot effect prosperity by manipulating money. Would you say that adversity can come by manipulating money?—A. What I said this morning was that we must not confuse high money, wages, with high or low wages, or we must not confuse the augmentation of money with the augmentation of goods.

Q. I understood you to say the prosperity of the country did not depend on the manipulation of finance?—A. What I meant to say was that prosperity depends upon the increased supply of goods that can be distributed and not in the increase in the supply of money.

Q. I have just two more questions to ask. What is your opinion of the effect of deflation, that we have had, say in the last two or three years, in our national debt. It was contracted, and we had high prices and we had to pay back at the time of low prices. Is there a serious injustice involved?—A. I think, of course, there is a serious increase in the burden. There is a serious increase in the burden on the people of Canada, and it is true not only of the Government, but it is true of every class, particularly the farming class, and the farmers who negotiated mortgages four or five years ago are going to find it more difficult to discharge the mortgages because of the decline in prices.

Q. Do you see any connection between that injustice and the adherence to the gold standard?—A. I did not say there was injustice exactly. There is a hardship there. It is a difficult thing to say it is an unjust thing. It is a hard thing. It is a difficult thing to define. I am not sure I used the word "injustice".

Q. You would hesitate to use the word "injustice", would you?—A. Well, I think that where prices fall without direct manipulation, where there are world factors involved, you can hardly say it is an unjust thing.

Q. Professor Irving Fisher called it wholesale pick-pocketing. I want to ask you again.—A. I think that is a very extravagant statement of his.

Q. We will call it a misfortune, to use a milder term. Between that misfortune and our adherence to the gold standard.—A. There is this: if we want inflation and high prices, as far as we increase speculation and inflation, to that extent, we get away from gold prices, but I believe for permanent prosperity, that we had better get back to the gold basis.

Q. Is it true that during the latter part of the nineteenth century there were very marked fluctuations in the price level, due to the relative increase and decrease in the gold supply?—A. It was generally charged that that was the cause, at least, the main factor. For instance, the Australian discoveries and the discovery in California—I think in the case of California the gold discovery and the discovery in Australia, that the added supply had an effect, but I believe there were other factors which had a greater effect on changes in prices. During that time we opened up new countries, we built new railways and these factors certainly had their effect, as well as the increase in the production of gold.

Mr. GOOD: I have imposed on the Committee, but I had a lot of questions which I wished to ask.

By Mr. Jelliff:

Q. I did not ask any questions and I did not expect to ask any this afternoon. I would like to fill out the time a little bit.

The CHAIRMAN: Go ahead, Mr. Jelliff.

[Prof. Swanson.]

By Mr. Jelliff:

Q. Professor Swanson referred to the desirability of a method of refunding the farmers' debts and I understood that he had some plan of his own. I would like to hear in brief what he has to say and if it is necessary that that thing should be done, if it cannot be done under the banking system. How is it going to be accomplished so as to get our banking normal?—A. What I had in mind was this, that the farmer, at the present time, has his obligation to the bank. He has his obligation to the machine company; he has his obligation to the country merchant; he has his obligation to the mortgage company, and I think if it were possible to classify those debts in two categories, the one to the bank and the others to one loaning company, and if we could discharge the debts that are being carried without the heavy burden of the interest rate at the present time and issue a new kind of security on the land, that that would be a very great help to the agricultural community. I believe, however, that the question of long term loans is not a problem that properly comes before this Committee. I might be mistaken. I understand this Committee is dealing with the revision of the Bank Act itself, unless you believe long term loans should be given by Canadian Chartered Banks. I do not.

By Hon. Mr. Stevens:

Q. How long a loan do you think should be provided to supply this need?—A. In the United States, for instance, they are giving the farmer forty years on the amortization plan, so that on the payment of eight per cent, eight per cent takes care of interest and also takes care of the payment of the principal, so that after forty years the debt, as well as the interest, is discharged.

By the Chairman:

Q. You have no particular plan to elaborate specially. You merely say there is a place for such an inflation?—A. There is a place for such an inflation, and I have a plan of my own that I have been working on, but I would not care to present it at the present time.

By Mr. Jelliff:

Q. Just another question. This morning you mentioned the rural credit system of your own province. You stated that you did not have the means to carry that on, to the extent that it should be carried on, in order to relieve the farming situation there. Do we infer from that that you favour a system along like lines, backed with the strength of the resources of the Dominion Government?—A. That is precisely what I mean, but I do not want to bring forward the plan at the present time. But that is what I mean.

Q. That is all. I just wanted to get your general opinion on the subject.

The CHAIRMAN: I take it there are no further questions to be asked.

By Mr. Shaw:

Q. I wanted to ask one or two questions. Do you agree, Professor Swanson, with Professor Fisher and Professor Shortt, that inflation and its reaction, deflation, are bad?—A. I think inflation is always bad, but I think deflation has to come.

Q. That is, if there is inflation?—A. That is, if there is inflation.

Q. I mean, would it be desirable if we could dispense with both of these things?—A. Of course it would, and that involves the elimination of speculation and the speculative man of business, which is almost beyond our control.

Q. Do you think that the stabilization of the dollar, in so far as its purchasing power is concerned, is a desirable thing?—A. Yes.

Q. And that it will largely, perhaps not entirely, but largely, eliminate inflation and deflation?—A. No, it would not.

[Prof. Swanson.]

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Q. Well, then, Professor, will you tell me—you have given many years' study undoubtedly to these economic problems, I take it—will you tell me what you propose as a remedy for this situation?—A. For what situation?

Q. For the conditions of inflation and deflation, through which we are continually passing?—A. I think the real remedy for inflation, aside from this catastrophic inflation that came about as the result of war conditions, is under-production of the essentials of life, as compared with the needs of the nation. Apart from this, what we need to do, is to check speculative factors, the boom conditions, where profits are taken without real service being given to the community or to the nation—in other words, that the banks and financial institutions shall loan to the producers and not to gamblers.

Q. I presume you would agree that in so far as the banks have loaned to gamblers that they have been responsible, to that extent at least?—A. To the extent that they have.

Q. For inflation and deflation?—A. Yes.

Q. Now, I do not understand from you whether you agree or disagree with the idea that concentration of the banking power of the country, the financial power of the country, is a good or a bad thing.—A. I think centralization, such as we had, the mobilization of credit under the Canadian bank system, is a good thing.

Q. You say this concentration is a good thing in Canada?—A. Yes, under the control of bankers.

Q. With all Canada's difficult economic problems, varying from British Columbia to the province of Nova Scotia, each particular province with its own.—A. I think that it is desirable that the finance of this country should be mobilized in the hands of some of the seventeen banks to be placed where this finance would do the most good.

Q. Your idea is that the banks are meeting every legitimate demand of the country at the present time?—A. I do not say they are meeting every legitimate demand of the country at the present time, but I say they are making an earnest effort to meet the legitimate demand.

Q. Why do they fail in their earnest effort then?—A. There are farmers out on the prairies who are in such position that they are in need, but they are in such position that the banks cannot extend credit.

Q. You would not say that was a legitimate demand?—A. I do not say that it is not a legitimate demand, if a man is in need, and he has the capacity to produce, and he has the land. I say that is not the case of the banks, but it is the case of some other credit institution.

Q. So far as the banks are concerned, I understood you to say that these claims of the farmers can only be met by some other method and that not through the banks?—A. By some other method, plus the banks.

Q. So the banks can do something?—A. So the banks can do something, and are doing something, of course.

Q. I think you stated you could not inform us to what extent you would favour a further concentration of the financial wealth of the country. You are not able to state that?—A. No.

Q. It might be that the reduction of the banks to one, might be a desirable thing here in Canada.—A. Theoretically it might be.

Q. But practically?—A. I would like to see some competition.

Q. Is there any competition among the banks to-day? I mean any real competition?

The CHAIRMAN: That has been gone over three times.

Mr. SHAW: Not the particular point I am going to approach.

The WITNESS: I would like to think there is competition.

By A. r. Shaw:

Q. Your suggestion is that there is competition, in service?—A. Yes.

Q. In the banking facilities, letterheads, and accommodations that banks give generally?—A. Yes.

Q. But so far as accommodation to the public is concerned, in the matter of the most apparent service a bank can give, in the matter of the rate of interest, payable to the depositors, is there any competition?—A. With respect to the rate of interest?

Q. Yes.—A. Well of course, the rate of interest, as I said before, is worked out by the demand and the supply of loanable funds. You might say is there any competition between various grain exchanges, in relation to the price of wheat. There is a price of wheat in one neighbourhood, and if the farmer goes to the one neighbourhood and finds wheat one-half cent higher than he sold the wheat at another elevator in the same town for, he is very much annoyed about it. He expects, with the market conditions, that there should be one price for the wheat that day.

Q. I take it there is a varying price, as far as wheat is concerned.—A. Yes.

Q. Can you tell me during your life time of ever having been paid—A. I say there is one price for wheat, or ought to be one price for wheat in one locality.

Q. Can you locate one time in your life where the banks paid a rate of interest greater or less than three per cent?—A. No. You mean on deposits?

Q. Yes. I am speaking about monies on deposit.—A. I thought you were speaking about loans.

Q. I was speaking about monies on deposit. There has been no difference in the rate of interest in your lifetime?—A. No. This is done by agreement.

Q. This is done by agreement?—A. Yes. I would say so. I think it is done through the Canadian Bankers' Association.

Q. I asked the President of the Canadian Bankers' Association, and he did not know anything about it at all. Can you tell me where I can locate that agreement, because I would be interested in finding it.—A. I think it is a gentlemen's agreement.

Mr. SHAW: Within the bosoms only of the members of the banking fraternity.

The CHAIRMAN: We will get along, Mr. Shaw.

By Mr. Shaw:

Q. You have spoken about the rate of interest paid on deposit, which you say is fixed perhaps by gentlemen's agreement. Now with regard to the rate of interest, charged by the bank to the borrower, can you tell me whether there is any variation, in your experience, between the different banks?—A. There are rates varying from seven to ten per cent from the east to the west.

Q. What effect would the raising of interest on saving deposits have, Government saving deposits, post office saving?—A. It probably would result in attracting some money from the banks to the post office bank.

Q. Do you think it would?—A. I do not think so.

Q. Would that be desirable?—A. I do not think so.

Q. Why not?—A. I think that the deposits in the banks are put to a more effective use.

Q. What rate does the Government borrow money at? Do you know generally?—A. I should say from five to five and one-half per cent.

Q. Why do not they, for instance, offer four per cent? Do you think it would be good business to offer four per cent to the depositors, that that would have the effect of—A. I think not, because as I said a moment ago, deposits left with the chartered banks of Canada are turned into productive channels and put to work more efficiently than when loaned for Government purposes.

[Prof. Swanson.]

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Q. So that you would suggest that the monies received by the Government could not be placed to as productive fields of endeavour as monies which would be placed on deposit in a bank?—A. Government deposits are deposits in the post office saving bank, as you know perfectly well, and are not from business men or those engaged in business as a rule. They are deposited in the smaller sections by people who are not actively engaged in business. Remember then, that a great deal of the money on deposit in our banks, in the savings departments, originate on loans made by the bank, in the first instance.

Q. They borrow from the bank and put it with the Dominion Government?—A. No, to leave it with the banks.

Q. We were speaking a moment ago with regard to the interest rates charged borrowers by banks. There is substantially no variation in the charges in any particular locality by different banks. Is that not correct?—A. That is correct.

Q. Would you say that that too, was fixed by some sort of gentlemen's agreement?—A. I am not in a position to say.

Q. Would it occur to you that that is the fact?—A. Some might believe that that is true.

Q. As a student of economics and a man who is accustomed to studying causes and effects, economic conditions generally, would not you say it is reasonable deduction to make?—A. I think as a matter of fact, there is an understanding.

Q. I see. And that would be incorporated in the same form of an agreement as an agreement made with regard to the interest rates on deposits?—A. There is, as you know, a sub-committee of the Canadian Bankers' Association at Winnipeg. These gentlemen meet and discuss problems from time to time, and no doubt they try to get some uniformity of action.

By the Chairman:

Q. The rate of interest is not fixed by localities, is it? It would be more a matter of the individual borrower?—A. Oh yes.

Q. Are you sure? Mr. Shaw put that into your mouth. I never heard of interest being fixed by localities? And I can understand you would get three or four rates of interest from localities, depending on the credit of the borrower.—A. In an eastern locality, the rate may be seven per cent.

Q. It might be more, but I want you to be clear as to what you mean. Do you mean that interest is fixed geographically, or it is according to the individual requirements?—A. It is sometimes both. It depends on the collateral that can be offered, and the character of the borrower.

Q. A Victory Bond is the same in Calgary as in Halifax?—A. Yes.

By Mr. Shaw:

Q. You of course have lived in the West a great many years, and you know, as well as I do—take in the city of Saskatoon, the loaning arrangements with regard to interest by the various banks practically synchronize with each other: that is, the conditions being the same, the collateral being the same, the person borrowing being the same, the banks will lend at exactly the same rate of interest, substantially?—A. Yes, provided the collateral and the character are the same.

Q. So far as competition is concerned, it would not be fair to say that competition does not affect the rate of interest charged to the borrowers there?—A. I do not think competition can bring the interest rate down below a certain point, under the conditions that prevail.

Q. Of course, if you say that it is probably fixed by agreement, naturally competition does not enter into it.—A. I did not say it was fixed by agreement.

[Prof. Swanson.]

You compelled me, or at least you pressed me for an answer as to what I thought. It is with certain reluctance that I say that I believe there may be some general understanding among bankers. There is a general understanding among business men in every line. There is a general understanding among farmers. They meet in convention and discuss their problems.

Mr. SHAW: That is satisfactory for my purpose, however reluctantly obtained.

The CHAIRMAN: Your purposes, I suppose, are the purposes of the Committee. You have not in mind any personal purpose?

Mr. SHAW: No.

The WITNESS: I would like to make this statement. The reason I say I am reluctant is, that I do not want to cast any aspersion on any class.

By Mr. Shaw:

Q. None of us are trying to do that, but we are trying to ascertain the facts. I want to ask you one other question. I am sorry for having detained the Committee this long. Do you think that safeguards should surround the amalgamation or merger of banks, any safeguards?—A. Assuredly.

Q. What are they?—A. There is the consideration of the Finance Department, and the Parliamentary Committee on Banking and Commerce. I believe the whole matter should be gone into thoroughly before Parliament consents to any merger.

Q. You would suggest in any case, where there is an agreement or a merger, you would suggest that Parliament itself should expressly approve?—A. I think it should be investigated by the Committee and be referred to the Finance Department.

Mr. HANSON: Would you give your reasons for saying that, Professor Swanson? As I understand the witness, before any merger should take place, it should not only have the authority of the Finance Department, but should be investigated by this Committee. I ask for his reasons.

The WITNESS: This is a question, you understand, which is given to me to answer on the spur of the moment, and I have been thinking for some time, of course, of this matter of mergers, and the diminution of the numbers of banks, and I think that only after the most careful investigation and consideration that ought to be done.

By Hon. Mr. Fielding:

Q. By whom?—A. The Finance Department. Perhaps by any additional body that the Minister of Finance might care to have make that investigation.

Q. Where do they live, this additional body?—A. It would have to be a parliamentary body.

By the Chairman:

Q. How could Parliament possibly do it? Suggestions can only arise in the crisis. If Parliament is not in session, you would have to destroy banking or something else. To talk about Parliament is nonsense.

By Mr. Hanson:

Q. If interest on the bonds is raised by the banks, what effect would it have on the borrower, if a high rate of interest is paid on deposits. Supposing four per cent is paid on deposits?—A. It would increase the cost of doing business.

[Prof. Swanson.]

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Q. And consequently would have to come out of the borrower?—A. Consequently would have to come out of the borrower.

Mr. IRVINE: We have not been able to hear Mr. Moore, and he will not be available any more this week. I would like to ask if the Committee would receive his written statement and have it appear in the evidence.

The CHAIRMAN: Mr. Irvine asks that Mr. Tom Moore be permitted to put in a written statement, and that it be put in the record. I thought at least we could have finished and given Mr. Moore time to appear before us this afternoon. I am quite willing to sit until 6.30 to hear him now.

Mr. IRVINE: So am I.

The CHAIRMAN: I wish to express on behalf of the Committee to Professor Swanson our appreciation for his having come so far to give his views to the Committee on the question of financial credit. Would it not be possible for Mr. Moore to be here for fifteen or twenty minutes at eleven o'clock to-morrow?

Mr. McMASTER: Is this gentleman's appointment before another Parliamentary Committee? I would imagine a Committee of this House had the first claim on the gentleman's attendance.

The CHAIRMAN: We always try and accommodate ourselves to the engagements of other individuals. Mr. Moore, how long are you to be out of the city; how long before you will be available?

Mr. MOORE: Well, I understand that Thursday is a holiday and Friday I could not be here.

The CHAIRMAN: We can call Mr. Moore next week.

Mr. MOORE: It will not take me more than five minutes to say what I have to say.

The CHAIRMAN: If it will not take you more than five minutes, you had better say it now.

TOM MOORE, called:

The CHAIRMAN: Mr. Moore needs no introduction here or elsewhere.

The WITNESS: I just want to say from a casual following of the evidence through the newspapers, that it appeared to me that you have had a great number of expert witnesses before you, and when I was requested to come before the Committee, I felt that I could only come in one particular regard, and that was, as a non-expert witness, in other words to try and put before you very briefly some of the opinions which are held by the ordinary man in the street. To do that in the most concise manner I have made a slight memorandum here which I will read to you.

It is my understanding that this Committee had referred to it, by resolution of the House on February 26th last, a resolution of Mr. William Irvine, M.P., which reads:

“That in the opinion of this House a Representative Parliamentary Committee should be appointed to investigate the basis, the function and control of financial credit and the relation of credit to the industrial problem.”

In suggesting this course the Hon. Mr. Fielding, Minister of Finance, said:—“I can only say that so far as I have any opportunity of advising or assisting the Banking and Commerce Committee, my wish will be that they shall not be restricted but shall give effect to a desire of a full discussion of the whole question. More than that I cannot say but at all events all practical questions involved in this resolution can be brought before the Committee.”

[Mr. TOM MOORE.]

I have also noted that some of the witnesses who have appeared before your Committee fully recognize the connection between financial control; banking system and industrial conditions. Sir Edmund Walker in his evidence emphasized his belief that the present day conditions will only be corrected by years of economy and hard work and in respect to that said: "I do not know how the banks can do anything more than to preach annual sermons and give oburgations as to the necessity of doing that. We have no patent process to cause people to buy goods if they have not the money nor to cause people to produce goods when they are afraid they cannot sell. The inference from such evidence is that credits over which banks exercise control play no part in industrial prosperity or depression. It is likewise generally believed that the policy of deflation which has brought in its wake so much unemployment was instigated or at least materially helped by the action of the banks. I do not claim to have any expert knowledge of the mysteries and technique of finance and banking and so do not come before this Committee as a propagandist of any particular theory or in any way to suggest amendments to the new Banking Act which is being studied by you. I do desire however, to transmit expressions of opinion on this important matter that are heard daily throughout this country in the hope that they will be helpful to your Committee in drafting amendments to the Bank Act or suggesting changes in our financial systems which will bring some measure of relief to the thousands and thousands of those who suffer because of the present day chaotic conditions.

Banking is recognized as a community service and therefore any system, which does not give proper recompense to those engaged in its operations and at the same time provide a medium whereby those who produce can become possessed of the things that are made and needed, then it utterly fails. There is a growing belief that the present financial system does not function for the benefit of the masses but that it is enabling small groups to obtain a strangle hold on nations and that we are faced with the need of immediate and radical changes.

It cannot be understood why the fixing of international exchange rates are left to the oft-times panicky decision of individuals. During the winter of 1921-22 the Canadian dollar was depreciated about eighteen cents in the United States. The coal merchants of Ottawa advertised the fact that this depreciation added close to \$1.75 to each ton of coal consumed in this city. By this can readily be seen direct connection between exchange and the cost of living. Since that time it has been stated in the Press of this country that our gross debts (Federal and Provincial) have largely increased and yet we find, for some mysterious reason, that though we are deeper in debt our credit with the United States is re-established and our money at the present time is almost par with that of the United States.

The simple question arises why cannot exchange rates be fixed on basic statistical knowledge at necessary periods by International Government authority in the same manner as the postal rates are at present dealt with? Money taken as profits in the buying and selling of money must necessarily diminish the purchasing power of the producer and add to the cost of the article to be sold. Deflation has increased the value of bonded investments and proportionately decreased the value of farm products and manufactured articles.

Credits are the weapons used by banks to inflict their policies on the people generally. It has been said at times by employers that the banks have exercised their authority through the granting or refusing of credits to dictate industrial policies and their lack of knowledge of the conditions facing the actual employer has oft-times precipitated strikes. Whatever truth there may be for this broad assertion, it is a known fact that many firms who have been most

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active in commencing or carrying on industrial disputes have been those most dependent upon the banks.

The chaotic and merciless conditions oft-times brought about by refusal to grant or extend credit is well illustrated by the conditions existing in a certain Northern Ontario town. This town has met with two great disasters previously and is now suffering from a grave epidemic. No further credits can be got from the banks with the result that nurses cannot be paid. Proper isolation cannot be provided. The finance system as we have it has ceased to function and the people of the community are thrown back upon private or public charity to enable them to exist.

Credits are refused to force disposal of stocks at lower prices. Credits have been said to be refused to force a temporary shut down of plants to bring about reduction of wages or the acceptance of longer hours even though orders on the books have been unfulfilled.

In brief, credit manipulations and deflation are mostly responsible for our large losses through unemployment. No one doubts our wealth of natural resources. Few have dared to slander our people by falsely branding them as either lazy or incompetent. Our industrial machinery and equipment is modern and ample. The needs of our people are only partially satisfied. Good roads are recognized as profitable investments. Our railroad accommodation is condemned in Toronto, Hamilton, London, Montreal and Quebec and in fact in most of our large cities. Homes are badly needed and so on *ad libitum*. Work is to be done—machinery and material are on hand—workers are waiting in semi-starvation for the opportunity to do this work or in despair are leaving the country. Thousands more in Great Britain and Europe are anxious to come to Canada and help in its building up. The only thing preventing development and perpetuating this apparently insane condition, so we are told, is the need for money—credits. Credits—money.

In conclusion, I wish to point out that I have only laid a few simple facts before you in the expectation that the intelligence of your Committee, coupled with the advice of experts capable of giving it, will decide to recommend to Parliament remedies which will remove artificial barriers now existing towards Canada's prosperity and contentment amongst its citizens.

I might perhaps have added that I noticed in the *Montreal Gazette* an editorial which agreed to some extent with what has been said, and I would like to quote an extract from this editorial:

"How then, are farmers requiring financial assistance to get it? Most farmers find themselves short of capital, and therefore are unable to command credit. The farmers of the West need both capital and bank credits to carry on their business. The banks cannot supply them with capital, and some other agency must do so. No immigration policy will be effective which does not take this into consideration."

By Mr. Hanson:

Q. You have no suggestion to offer yourself, Mr. Moore?—A. I emphasized in the beginning, I did not attempt to come before you as an expert and I fully appreciate that a matter of this kind, so far as some suggestions are concerned, is not one in which novices ought to interfere. I have, however, tried to summarize the views of the people throughout the country who do not understand the mysteries of banking and put them before you in as concrete a manner as possible.

The Committee adjourned until 11 a.m., Wednesday, May 9th, 1923.

DISCUSSIONS

Wednesday, May 9, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., the Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Any motions?

Mr. MITCHELL: I beg to move that subsection 5 of section 113 be amended. The amendment is somewhat lengthy; but it is throwing the responsibility on to the management of deciding what are overdue debts at the end of the year.

Mr. SPEAKMAN: I would like to give a notice of motion I propose to bring forward, and I think it is well, in order to avoid any suggestions of a snap verdict, that the Committee have ample notice of our intentions. We do not want to attempt to spring anything.

Hon. Mr. STEVENS: Is this in connection with the Bank Act?

Mr. SPEAKMAN: This is in connection with the procedure of the Committee in connection with the revision of the Bank Act itself. I am giving notice that on Friday morning we will bring forward the following motion:

"Whereas the work of the Select Standing Committee on Banking and Commerce which is undertaking the decennial revision of the Bank Act has been widened this year to include a general investigation of the basis, function, and control of financial credit and a large amount of data and information has been submitted to the Committee in this connection.

"And whereas the vital importance of this investigation has become apparent to all who are familiar with economic conditions throughout the world and with the very close connection between these conditions and the prevailing monetary and financial systems;

"And whereas testimony has already been given as to the seriousness of the situation, not only by those who challenge the existing financial order, but also by those who defend it;

"And whereas it will be impossible for the Members of the House to give adequate consideration before the end of the present session to the evidence submitted;

"And whereas a Special Committee of the House is now making an inquiry into Agricultural conditions in the course of which inquiry the whole question of rural credits is receiving attention;

"And whereas it is not improbable that this Special Committee on Agricultural conditions may make recommendations for rural credit legislation;

"And whereas time should be given for the Members of the House to acquaint themselves with the evidence submitted to, and recommendations made by, this Special Committee so that any special rural credit legislation recommended to the House may be considered in relation to, and as far as possible at the same time as, the final revision of the Bank Act;

"And whereas the War Finance Act of 1914, still in force, and for many reasons unlikely to be repealed, overrides the Bank Act in a number of particulars, and the problem of consolidating these two Acts confronts us;

"And whereas the situation revealed by the large number of answers to the questionnaire sent out by the Progressive Group demands most careful and prolonged consideration;"—

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I may say that we sent letters to various business and financial men besides farmers and workers asking for their opinions and suggestions, and they are just beginning to come in—

“And whereas the proposed economic conference of the British Dominions in October next will provide an opportunity for discussing some of the wider implications of our banking and financial systems and possibly prepare the way for joint action looking towards general reform of banking and currency;

“And whereas the Canadian Council of Agriculture, the Alberta Legislature, and the Manitoba Government have petitioned for the postponement of the final revision of the Bank Act until next year.

“Now, therefore, Be it Resolved that this Committee recommend that the charters of the Canadian Banks be given an extension of one (1) year, and that the final revision of the Bank Act be left over till next session.”

Hon. Mr. FIELDING: I notice you mention that for Friday. I may have to ask the Committee not to sit on Friday as I happen to be busy in other directions. The motion will be in order at any time after Friday if not on Friday.

Mr. SPEAKMAN: If not on Friday at the first convenient time after Friday we will bring forward this motion.

Hon. Mr. STEVENS: I should think it desirable that we should know definitely when it is coming up. I want to express a personal wish that it should not come up on Friday. It would be inconvenient to several members I know to come up on Friday.

Mr. SPEAKMAN: We are satisfied to bring it forward any day and to give every member of the Committee notice.

Mr. MITCHELL: Could it be fixed for Tuesday next week?

The CHAIRMAN: That motion will be the first on the order paper on Tuesday morning next.

Mr. SPEAKMAN: That is quite satisfactory to us.

The CHAIRMAN: If anything happens that the Committee cannot meet on Tuesday, then at the next following meeting. I am waiting for Mr. Woods-worth.

Mr. SPENCER: I understand that you informed the Committee the other day that this morning you would take up all clauses of which there had not been an amendment put forward.

The CHAIRMAN: Yes, we will do that first, and if we exhaust them, we will take up the clauses which have amendments proposed, because we must do business.

The Committee proceeded with the consideration of clauses of Bill No. 83.

On Section 84:

Mr. BAXTER suggested that after the word “timber” in the second line, the words “other than that leased by the government of any province” be inserted.

On Sections 88 and 89:

Mr. CASGRAIN: proposed an amendment to protect an unpaid vendor of goods or merchandise.

The Committee adjourned until Tuesday, May 15, 1923, at 11 o'clock a.m.

DISCUSSIONS

TUESDAY, May 15, 1923

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Any motions? The first item on our programme to-day is Mr. Speakman's resolution. (Reads).

"Whereas the work of the Select Standing Committee on Banking and Commerce which is undertaken the decennial revision of the Bank Act has been widened this year to include a general investigation of the basis, function, and control of financial credit and a large amount of data and information has been submitted to the Committee in this connection.

"And whereas the vital importance of this investigation has become apparent to all who are familiar with economic conditions throughout the world and with the very close connection between these conditions and the prevailing monetary and financial systems;

"And whereas testimony has already been given as to the seriousness of the situation, not only by those who challenge the existing financial order, but also by those who defend it;

"And whereas it will be impossible for the Members of the House to give adequate consideration before the end of the present session to the evidence submitted;

"And whereas a Special Committee of the House is now making an inquiry into Agricultural conditions in the course of which inquiry the whole question of rural credits is receiving attention;

"And whereas it is not improbable that this Special Committee on Agricultural conditions may make recommendations for rural credit legislation;

"And whereas time should be given for the Members of the House to acquaint themselves with the evidence submitted to, and recommendations made by, this Special Committee so that any special rural credit legislation recommended to the House may be considered in relation to and as far as possible at the same time as, the final revision of the Bank Act;

"And whereas the War Finance Act of 1914, still in force, and for many reasons unlikely to be repealed, overrides the Bank Act in a number of particulars, and the problem of consolidating these two Acts confronts us;

"And whereas the situation revealed by the large numbers of answers to the questionnaire sent out by the Progressive Group demands most careful and prolonged consideration;

"And whereas the proposed economic conference of the British Dominions in October next will provide an opportunity for discussing some of the wider implications of our banking and financial systems and possibly prepare the way for joint action looking towards general reform of banking and currency;

"And whereas the Canadian Council of Agriculture, the Alberta Legislature and the Manitoba Government have petitioned for the postponement of the final revision of the Bank Act until next year.

"Now, therefore, Be it Resolved that this Committee recommend that the charters of the Canadian Banks be given an extension of one (1) year, and that the final revision of the Bank Act be left over till next session."

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That is the resolution, gentlemen, I may say that the resolution is not in order, and I would not be inclined to hear it because it is the duty of the Committee to consider the Bill as it is sent to it from the House, and it is the duty of the Committee to report the Bill, amended or unamended. We have no power whatever to do anything else. However, it is the fact that this resolution may be put in the form of an amendment, and I have conferred with the Minister of Finance, and he is quite willing that we should consider it. I do not think there is much reason for any lengthy discussion on the resolution; anything that can be said in its favour or against it, can, I think, be said in a few minutes.

The Hon. Mr. FIELDING: There is nothing that I care to say at the moment. I have not given much thought to whether your point is well taken or not; whether it is in order or not to have the resolution discussed. I would prefer to have the Committee proceed to deal with the question. I would rather have it discussed now than postpone it.

Mr. SPEAKMAN: Mr. Chairman, perhaps you will permit me to give my reasons for bringing this motion forward at this time. I may say that I am not approaching this subject, nor am I bringing forward this resolution, for the reason that I am supporting at the present time any theories or any schemes that have been advanced. I have not yet made up my mind as to the value of those schemes or theories. I am approaching the subject, and I bring forward the resolution for the reason which I stated in the House, and which is that I believe that this is one of the most important subjects that we have under discussion. I believe that the effects will be very far-reaching, and personally, I believe,—and I think this holds good in the case of a great number of the members of the House—that we should thoroughly understand the effects of the provisions in this Bill before we pass them. For some time now, we have been taking evidence from those who have different theories and different ideas to advance. We have had the opinion of the bankers, and to my mind there are several salient features that stand out in the evidence which we have heard, and to which I shall refer very briefly, because I have not yet made a thorough study of the evidence, and I have not made up my mind definitely as to the value of the evidence for and against. But I feel this very strongly: We have been shown in this Committee not only by those who challenge the present system, but also by those who support it—we have been given to understand from all the evidence received that our present banking system, as it has been carried on in the past, has not entirely functioned, and has not been entirely satisfactory in carrying out its purposes. I think we must all realize that this country cannot go on indefinitely year after year, with the system under which we have been working, without making some change or devising some remedy, because the accumulation of debt, and the enormous interest which has to be met yearly shows that we cannot possibly go on in that way indefinitely. I feel that it is an absurd situation that we should shut our eyes to those things, and that we should imagine that we can simply muddle through by letting things go on as they have been going on in the past, and expect that in some peculiar way time will straighten all things. I am not a pessimist, I think I can fairly well claim to be an optimist—but I think one should be a reasonable optimist, and it seems to me that the most dangerous person we have to contend with at the present time is the unreasoning optimist, the man who believes that all things will come out alright just by closing his eyes to what is happening, and trusting to time to provide a remedy. It seems to me that it is our duty to see that conditions are met and to help to find a remedy which can be worked out properly. As to the vital importance of this investigation, I think all agree, and therefore it is unnecessary for me to discuss that point. I am not here to make a long speech; I am here to give my

reasons for bringing forward the resolution, and why I do not think it is wise to put the Bill through at the present time. I think it has been shown very definitely that there is a close relationship between the Act, as it is carried out, between our financial system as a whole and the sources and volume of business of this country. Testimony has been given to that effect. We all agree on that. The bankers as a whole agree on it, and those who have given consideration to the subject agree upon it. We have occupied a long time in taking evidence; we have had a lot of it, but I venture to say that no one who has attended the meetings of this Committee, has had the time to study that evidence, weigh it, and form intelligent conclusions thereon; and if that is to be said of the members of the Committee, what is to be said of the members of the House in general who have not attended the Committee, and who are called upon to debate the provisions of the Act. It seems to me that we place ourselves in an absurd position, after giving a great deal of time and trouble, and incurring a great deal of expense in getting information, in attempting to pass the Act without full consideration of the evidence. To my mind, that is an absurd situation.

There is another point which interests me very particularly. I have felt for a long time, and I think you are aware that a number of us have felt, that the Bank Act as at present drawn and constituted, does not provide adequately for financial credits to rural occupations. That has been admitted by the bankers and by every one who has spoken on the subject, or who has studied the subject. We have a Committee working on that now, a Committee which will bring in a report. We do not know what that report will be. They may recommend an Act which may be distinct entirely from the Bank Act, or they may recommend some alterations of the Bank Act by which a rural credit scheme might be carried on by the banks themselves. Time must be given to consider their report in that particular aspect.

There is another point which requires consideration, and that is the relation of the War Finance Act, which undoubtedly overrides the Bank Act at the present time in a number of particulars.

There is another thing which is not only of interest to the members of the Committee and of the House, but which is of most vital and increasing interest to the people of the country—and it is only within the last few days that we are beginning to hear from them, and are beginning to understand what they want. Those are the people who will be most vitally affected, and time should be given to them to read the evidence, to understand the evidence and to make up their suggestions. This idea is not one that is personal to myself; it is an idea which is concurred in by every Progressive member of the House, and also by the Governments of the two provinces most affected.

MR. W. F. MACLEAN: How many members of your party are there in the House, roughly?

MR. SPEAKMAN: I am speaking for about sixty members, and I may say that it is the unanimous opinion of those sixty members that this should be done. More than that, I am speaking for the province that I represent, because the legislature of that province, realizing the importance of this inquiry, realizing the bearing of the Bank Act and of the financial system upon their welfare, realizing it more particularly with regard to rural credits and agricultural credits, have strongly petitioned that this be postponed for one year. The Manitoba Government have taken the same stand. They have asked on the same grounds, that they may have time to consider it, to discuss it, to make suggested changes which will meet the situation. The Canadian Council of Agriculture, which represents officially all the organized farmers throughout

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Canada, have taken the same ground, for the same reasons, that the Bank Act as at present constituted does not meet the requirements of agriculture, and that until we know whether some means may be found outside the Bank Act to meet those conditions, the Bank Act itself should stand over for final revision until an opportunity has been given to make suggestions. I do not know at the present time whether we are going to meet those accepted conditions through the Bank Act, through the enlargement of the scope of the present banks, or through other institutions altogether; and I venture to say that there is no member of this Committee who knows that at the present time.

The CHAIRMAN: I do not think there is much doubt about it; if there are to be rural credits, the matter would have to be dealt with outside the Bank Act.

Mr. SPEAKMAN: I am inclined to think so too, and that it would probably be more advisable to have a separate Bill.

Mr. W. F. MACLEAN: It would apply largely to the banks.

Mr. SPEAKMAN: It might have to be worked largely through the banks themselves and to function through the banks, so far as local work is concerned. Now these are the reasons why I have brought forward this resolution. I know it will be said, in fact it has been said, that the Bank Act may be revised if new conditions arise, that the Bank Act is subject to revision by Parliament year after year. Of course, we are all aware of that, but we know too, and it has been stated by the Minister of Finance, that if charters are given under certain specific conditions and for a specific term of years, there is a moral obligation upon Parliament to see that those conditions are not materially altered during the term of that charter. That is why we think it would be fair to the banks themselves to carry on for one year more, fair to them as well as to others, so that at the end of that period if material alterations have to be made, they can be made to meet the known conditions.

The main point, however, is this; I am not attacking the banks; I am not attacking the men who are running the banks. So far as I could gather from their evidence and from their appearance before the Committee, they are a conscientious and able set of men, working under the present system as well as they can work. But I feel very strongly that some of the witnesses who appeared, bankers of international reputation showed that they had not studied sufficiently the underlying principles of their own business, that is, the real implications of their own business. As one of them said, he was long on technique and short on economics. I think the time has come when we have to consider the economic applications of the Bank Act to business. I, myself, have come to the conclusion during the hearing of the evidence that there is a very definite relationship between the financial system and the ordinary business prosperity of the country. I have come to believe thoroughly that the banking system should act as a medium to enable business to be continued satisfactorily. The banks have not succeeded in that; we have only to look at the business conditions throughout the country to know that they have not succeeded. It has been shown time and again that we can produce anything that is wanted; it has been shown time and again that there are millions of people who are anxious to buy those things; and when we realize that the banks are there to form the bridge, the means of communication between the buying and the producing public, then we must come to the conclusion that we should have time to most carefully consider the Bill in that aspect. For those reasons, Mr. Chairman, I think it would be the wiser plan, and the soundest policy, to give this matter the consideration which is due to it, the consideration which the importance of the

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subject demands, and not attempt to rush the thing through without further consideration. One man told me that delay might possibly produce a condition of panic and unrest in the country, that it was not certain what conditions they might have to face; it might produce a condition of panic. To my mind, that is a mistaken idea. In my view, a panic or unrest is more apt to be produced by inconsiderate action rather than by considered action. Personally, I am not in the least inclined to assist in passing an Act, or to take the responsibility which I must take in passing an Act, unless I am satisfied that the Act is going to meet the conditions. I am not satisfied at the present time that this Bill will meet those conditions. I am not satisfied that we have studied the numerous amendments carefully enough to understand their implication. I am not satisfied that we can conscientiously do that without giving the people themselves time to study the amendments and the different issues involved. To be brief, these are my reasons: because I wish to come to an intelligent comprehension of the provisions of the Act and the evidence which has been taken, because I wish to be absolutely fair to the bankers on the one side, and to the people on the other; because I wish to be fair to the men who have brought their theories before us, and because I wish to understand their theories more than I do at present, I move that consideration of this Bill be postponed for one year, and that the banks be simply granted a charter for that period.

The CHAIRMAN: Who is your seconder.

Mr. SPEAKMAN: Mr. Good seconds it. The motion for postponement is not without precedent. It has been done before. Because they realized that there was not time to consider the Act in all its phases the last revision was delayed, and there were no ill effects, that I am aware of. The banks carried on very well under the temporary charter and the work was done as well as before. Because I feel that it is due to the importance of the subject, because I feel that there is no man here who has studied the matter sufficiently to vote intelligently upon it at the present time, because I feel that the people vitally interested should have an opportunity to express their opinions, because I feel that no injustice will be done to the banks by studying it until we arrive at a considered judgment, I move this motion.

Mr. GOOD: Mr. Chairman, I have very much pleasure in seconding this motion. I am sorry that I did not get into the Committee room in time to hear all that Mr. Speakman said in favour of it, but I desire to emphasize some further points.

The CHAIRMAN: I hope that you will not cover the same ground as Mr. Speakman covered. I pointed out at the outset that this amendment is really out of order, but that we were willing to have it discussed. We do not want repetition. I am not saying that you have any intention of indulging in repetition but I wish you would be as brief as possible.

Mr. CALDWELL: Rats!

The CHAIRMAN: What is that?

Mr. CALDWELL: I said "Rats," why not let him go ahead?

The CHAIRMAN: What do you mean by that? Do you want to act as Chairman of the Committee? I would invite you to conduct yourself as a member of the Committee should, and if my conduct of this Committee is not satisfactory to you, you may retire. I was going to say that there is a caucus at 11.30 o'clock, and that we will be obliged to adjourn until the afternoon.

Mr. GOOD: Do I understand that the meeting is to adjourn at 11.30? If so, perhaps I had better defer what I have to say in this connection until we meet again.

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The CHAIRMAN: Unless you can finish quickly. The resolution speaks for itself; I do not think it calls for much debate. Mr. Speakman has covered the ground pretty well.

Mr. GOOD: I believe this is an important resolution, and that the members of this Committee, particularly those who have not been here fairly regularly, and who have not had an opportunity of getting the information that some of us have got, ought to have the opportunity before the vote is taken of considering the various aspects of the question. I have no desire, Mr. Chairman, to repeat what Mr. Speakman has said, and I am sorry that I did not hear all he said, because there is a danger that I may repeat some things. Under the circumstances, as it is within a few minutes of half past eleven, I think it would be better for me to defer what I have to say.

Mr. W. F. MACLEAN: Why have we to adjourn at 11.30?

The CHAIRMAN: There is an Opposition caucus.

Hon. Mr. FIELDING: I am not invited, but I would like to see the caucus get a show.

Mr. GOOD: I cannot finish in three minutes.

The CHAIRMAN: You might have finished if you had spoken to the resolution.

Mr. GOOD: I do not propose to be rushed in a matter of this sort.

The CHAIRMAN: I do not think you can be rushed; I have learned that before.

Mr. GOOD: The first point I have in my mind is that we come here charged with certain duties, and it is a fairly easy thing and one is seriously tempted, particularly towards the end of the session, to slight and shirk those duties. I think that if we look back over the history of legislation in this country—

The CHAIRMAN: What are you speaking to, the resolution or are you just killing time?

Mr. GOOD: I am not killing time; I want to get some kind of attitude, and I want to point out what I think is the right point of view.

The CHAIRMAN: What is the attitude you are trying to declare? Is it to have the Committee adjourn without going further now?

Mr. GOOD: I will take up more than two minutes.

The CHAIRMAN: If that is your attitude, we will save time now by adjourning.

Mr. GOOD: If you want to adjourn, adjourn now; if you want me to continue until the hand of the clock reaches the half hour, I will continue.

The CHAIRMAN: I do not want you to do that; I would be the last man to ask you to do that.

Mr. GOOD: I think it would be better to say all I have to say at once.

The CHAIRMAN: The Opposition have a caucus this morning at 11.30, and it has been the practice to adjourn Committees on occasions of that kind. It is quite apparent that we cannot get very much further this morning. We must decide whether we shall meet this afternoon, or not, for we must make progress.

Mr. KELLNER: Is it the intention of the Committee to extend that courtesy to the Progressives when they have a caucus?

The CHAIRMAN: I think we did so once already. If they have a caucus at any time, I presume that we would adjourn. I think we did that.

Mr. IRVINE: Labour is going to have a caucus to-morrow, Mr. Chairman.

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The CHAIRMAN: We will not adjourn for the Labour Representatives. We will invite them to have their caucus in a corner while the Committee is meeting.

The Committee adjourned until 4 p.m.

AFTERNOON SITTING

TUESDAY, May 15, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Order, please. Mr. Good, will you please continue.

Mr. SHAW: Might I interrupt for a moment before Mr. Good proceeds? I understood that Mr. Edwards would come here to give full information in connection with the Merchants Bank failure. I have gone over the evidence very carefully, and the information which I hoped would be available—I think it may be open to argument—is not disclosed there, and I would like to know if it is proposed to call any one else who can give us further information in connection with this matter. If not, I propose, Mr. Chairman, to give notice now of a resolution for the consideration of the Committee urging that some of the officials of the Merchants Bank should be called here for the purpose of giving that information.

The CHAIRMAN: I am not aware that it was the intention of the Committee to make any investigation into the matter of the failure of the Merchants Bank of Canada. Mr. Edwards was before the Committee, he will be here again, and if there is any question you wish to ask, Mr. Shaw—

Mr. SHAW: I will just give this notice, Mr. Chairman, of the resolution I propose to move, that some of these gentlemen be called—Mr. Kippen, the former assistant general manager; Mr. Macarow, the former general manager, or perhaps Sir Montague Allan—any one who is acquainted with it.

Hon. Mr. FIELDING: The honourable gentleman should give notice of motion.

Mr. SHAW: Very well, I will hand it in.

Mr. COOTE: I have two amendments; do you wish them put in now?

The CHAIRMAN: Yes.

Mr. COOTE: The first one is to amend subsection 3 of section 18, by striking out the words "shares of any bank" in the sixth and seventh lines thereof, and substituting therefor the following words: "other than investments and securities."

Hon. Mr. FIELDING: Is that the investment under the Pension Fund?

Mr. COOTE: Yes. The other one, which I will not take time to read, is to amend section 101 in regard to the amalgamation of banks, to make the agreement subject to the approval of both the selling and the purchasing banks.

Mr. SPENCER: Mr. Chairman, the last day we met in Committee, you mentioned that you had sent for Mr. W. L. Baker, of Toronto, and that he could not come at the present time as a witness on account of private business. I would like to ask you if he has been summoned to appear some time, as expressed by the Committee?

The CHAIRMAN: No, we have not summoned any witnesses at all during our whole proceedings, but as I informed the Committee, Mr. Baker replied to a request from me to appear before the Committee that, owing to business

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engagements, it was not possible for him to come. Later I wrote—I should say about the middle of last week—asking if he could fix a date at which he would appear, but I have not heard from him.

Mr. SPENCER: I take it that this Committee has power to summon any one before it.

The CHAIRMAN: Yes. Now, Mr. Good.

Mr. GOOD: Mr. Chairman, when the Committee adjourned before noon, I was reminding those present, many of whom had not been in attendance at the Committee in its ordinary sessions, that there was a tendency and a temptation at this time of the year to get in a hurry and to leave work undone or to shirk work. Now, I do not want to accuse anybody in particular; I think we all sympathize with the conditions prevailing, and we all understand the temptation which faces us, but in this particular matter I think it is too important not to weigh very carefully the danger of falling for that temptation. Now, as far as I am concerned, I am not going to allow those members of the Committee who are here now and who have not been in attendance to vote blindly on this motion, if they want to, or if somebody wants them to. I have a duty to myself and to my constituents in the country in that respect, and therefore I intend to take what time is necessary to supplement the case here presented by Mr. Speakman this morning in this connection. I hope, Mr. Chairman, I will not repeat what he said: I certainly do not want to, and I will try to avoid that as far as possible.

The CHAIRMAN: We will go on with the hope that you will not take more time than is absolutely necessary.

Mr. GOOD: I will not take up any more time than I think is necessary, considering the importance of the question we have to discuss.

Now, I do want to direct the attention of the Committee to the seriousness and magnitude of the task which faces us, and in that connection, Mr. Chairman, I want to refer to one or two editorials that appeared in the *Ottawa Citizen* lately. I have in my hand here an editorial headed, "Where The World Is Heading", which appeared on April 28th. I am going to read a part of this editorial.

WHERE THE WORLD IS HEADING.

"Sir Edmund Byron Walker is reported as expressing the opinion before the Banking and Commerce Committee that the world is heading for perdition. If inflation of currency such as Germany had indulged in is going to continue. This view of a veteran Canadian banker may be regarded as rather pessimistic. But it cannot be ignored. When a survey of conditions in the various countries is made, it is obvious that the policy of drift has passed the safety margin. It cannot go on much longer without producing a startling crisis.

"Leaders of conservative forces in politics—

I presume the word "conservative" is used not in the party sense but in the attitude of mind—

"and industry sometimes seemed deliberately to close their eyes to the facts of the situation, when they stubbornly resist any proposed movement towards reconstruction. Periodically the nations are being warned in the plainest possible language against continuing in the direction in which they are heading. For several years before the outbreak of the last war, many people knew almost to the day when it would begin. In Canada, the Government knew of the approaching crisis for at least a

year before 1914. It is equally well known to-day that the drift is towards another, perhaps far more disastrous, upheaval.

"History is repeating itself though with less publicity, in the preparation of modern armaments."

Then there is a reference to an article which Lord Montagu has written lately—I think I have it here—in the London Observer. I am going to read part of this, it is a very short article, just an extract from his article.

"Now, as to the actual methods and manner of attack by bombs. Let us reflect for a moment what this may mean in the near future. In the last war incendiary and explosive bombs were practically the only types used, the first designed to set on fire buildings through which they dropped, being filled with thermite, and sometimes a small quantity of petrol. The explosive bombs of high power used towards the end of the war were designed to blow to pieces private houses, government buildings, munition factories, and to wreck railway bridges and important thoroughfares. But it is no good hiding our heads in the sand and pretending that these will be the only types of bomb which will be used in the future."

—then he goes on to explain what the ingenuity of man has devised.

MR. IRVINE: I cannot hear a word Mr. Good is saying. I think it is only fair that we should listen to what Mr. Good has to say.

MR. GOOD: I am unfortunately rather disabled by tobacco smoke. I am not going to read the conclusion of the article, Mr. Chairman, but I think you can imagine what is in store for civilization if the science and ingenuity of man is applied to the designing and utilization of engines of destruction in the time to come.

THE CHAIRMAN: Mr. Good, will you tell me what that has to do with this Bill?

MR. GOOD: Yes, Mr. Chairman, I think I will show you a very close connection if you have a little patience.

THE CHAIRMAN: I have always exhibited patience here, but you must understand that you must speak to the point. There will be no misunderstanding about that.

MR. GOOD: I continue reading from this article by Lord Montagu:

"Opponents of any direct step toward reconstruction, or even moderate re-adjustment, may believe they are thus helping to delay the plunge into perdition, which they see ahead. But they are the same people who failed to produce any policy before the last war that had the slightest effect in averting the disaster. Without vision, but blinded in a miasma of pessimism, they still hang on grimly to the levers of a machine which is obviously beyond their control."

Now, I have here also some extracts from an article by Major Douglas, who appeared here, which were written for the English Review. I am going to read one or two short paragraphs from this:

"Nor is it fair to say that the average man in the street is such a natural born fool that after four and a half years of a war in which, as an individual, he was killed, maimed, broken in health and home, ruined financially, and—as very rich bankers like Lord Incheape never tire of telling us—impoverished nationally, although a "winner", he requires safeguarding from a far worse war because of a widespread desire to repeat these experiences. Not a bit of it. There is a growing tendency to acquiesce in the inevitability of another war, because along with war

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came certain phenomena which can be collected under the term of economic prosperity. Close reasoning not being a conspicuous attribute of the man in the street, he assumes that peace and economic depression are necessarily inseparable."

Further on in the article, the writer continues as follows—

Mr. SPENCER: We can hardly hear what Mr. Good is saying.

The CHAIRMAN: Order, please, gentlemen.

"In order to grasp the reality of these problems it is necessary to go back a little to inspect afresh the pivot on which the whole situation turns. The doctrine says, 'If a man will not work neither shall he eat'; and both high finance and extreme labour chant Amen, each of them mentally reserving for their own purposes the right to define what is work.

But, enter a third party, modern applied science and technology, which says, 'I will show you how to place the burden of humanity on the backs of machines; to harness solar energy, through the medium of steam, oil, water-power, and even atomic energy so that one man working under conditions of great comfort and enthralling interest, shall produce enough for one thousand, both of food, clothes and housing.'

Thus, between modern science and the doctrine is declared war to the death; for either science will win, in which case the increasing majority of human beings will, in the nature of things, and not by any legalistic process, be released from the slavery of arbitrarily conditioned employment (which is the stronghold of the doctrine) or finance and legalism, continue as at present to counter each advance of science so that labour-saving machinery will only enable men to do more "work", while sabotage and misdirection of effort will dispose of and waste the product until such time as science, misused and prostituted by the captains of industry, who know everything about their business except what it is for, will destroy civilization."

Now, Mr. Chairman, I think that ought to show us, if we have any anxiety, something of the seriousness of the world's situation which faces us. We have taken cognizance of this situation in a somewhat widened investigation this year, and I would suggest that the very fact that we have widened our investigation this year beyond the confines of those matters that are specifically dealt with in the Bank Act and the law would warrant the spending of a little more thought and time upon this very important question. I note also that in 1913, when the Bank Act was revised the last time, there were, I think, more witnesses called than have been called this year. At all events, there were five American bankers called to give testimony in connection with this question. We have not called any this year. We had one American economist. Now, another point. There are a great many committees meeting this year, and the work of the House has been going on at the same time, and, as has already been pointed out, it is not a fair thing that those who are not here and who will be called upon to vote on this question should be asked to make up their minds hastily on matters of this importance. If the final revision is left over until another year, these members of the House will have an opportunity of reading the evidence, digesting it somewhat, and coming back early next session with a very much better preparation and understanding of that problem than they have at the present time. I also want to refer to the War Finance Act of 1914, which as you know, overrides the Bank Act in a number of particulars, and has to be

harmonized with the Bank Act at the same time. It seems to be the opinion of the bankers and also the opinion of a number of the witnesses who have appeared here, that the Finance Act, or something of the same nature, should be made a permanent feature of our financial system, and that is a fairly large question. In that connection, I want to remind the Committee that the Special Committee on Agricultural Conditions is, by arrangement with this Committee, investigating the whole question of rural credit, which has become a very, very important matter, and as Mr. Speakman pointed out this morning, we do not yet see just how any necessary developments in the line of rural credits are going to be linked up with our present chartered banks, and it is for that reason that it is necessary for us to have a little time to hear the report of the Special Committee on Agriculture, to read the evidence taken before that Committee, before we can co-ordinate any desirable legislation in the direction of rural credits with our present financial system that is operating under the Bank Act.

I might point out also in that connection that if we are going to use the federal resources or the federal government in any way as a basis for rural credit, and not depend solely, as we have in the past, on the provinces and on the financial institutions already in existence, we shall have to maintain something like the War Finance Act, some enlargement of the powers of the Treasury Board, so that we may utilize the national credit as they are doing it in the United States.

Now, in that connection, I have here an article which I cut out of a paper a little while ago, dealing with the New Zealand system of long-term loans, and I would like to direct the attention of the Committee to some information given in this article. That will show the tremendous importance of the rural credit idea. These are things which we shall have to take—which the Canadian people will have to take into consideration in the very near future if this country is to survive. It is not a trifling matter at all; it is a vital matter in my judgment, that the whole question of rural credits be thoroughly investigated and some action taken, and we should not take action hastily, we should take action after full investigation and deliberate consideration. Now, the information given in this article is obtained from a book entitled, "The Story of New Zealand", by one of the men attached to the American Academy of Political and Social Science, Washington, D.C. I am going to read just a part of this article:

"In the years between 1890-1897 there seems to have been a wave of commercial adversity that was world-wide, according to a statement in the Annual Register, a publication of London, England of that time. The public revenue in all the Dominions, New Zealand alone excepted, was necessarily affected to the overthrow of all financial calculations."

"In every colony there was a deficit which grew at an alarming rate, taxing the ingenuity of governments to the utmost. But alone among the colonies of Australasia, New Zealand suffered no check in her onward progress. How was it done?

"In addition to having a state bank, the Government went into the credit business on the long term loan plan. This was first outlined by Premier Seddon in a speech made at Taxton in 1893. He was promptly called a 'social devil' for proposing loans to farmers at low rates of interest. However, the following year, a Bill was introduced in the House and carried October 1, 1894, vote 36 to 11, and 28 to 4, in the Senate, October 10, N. 3 Parl. debates vol. 86, pp. 414, 647, and in February, 1895, the Government loans offices were open for business.

TERMS OF LOANS

"At this time money was borrowed in England at 3 or $3\frac{1}{2}$ per cent and loaned at $4\frac{1}{2}$ per cent on the following terms:"

Then it goes on to describe the conditions under which the loans are made, and also the half-yearly payments.

"The payments are half-yearly, so that the borrower, on the instalment plan"—

The CHAIRMAN: I want to call your attention, Mr. Good, to the fact that this Committee by resolution decided not to consider the matter of rural credits. That is left to another committee. The motion is practically that consideration of Bill 83 be deferred until the next session of Parliament, and you will please speak to the resolution.

Mr. GOOD: I understand that, Mr. Chairman, but my purpose in quoting—

The CHAIRMAN: There can be no purpose in quoting from that at all, directly or indirectly.

Mr. GOOD: There may be a difference of opinion as to that.

The CHAIRMAN: There can be no difference of opinion, Mr. Good; you know that.

Mr. GOOD: I will appeal to the Committee.

The CHAIRMAN: I will appeal to them soon if you do not get down to the resolution.

Mr. GOOD: Alright, Mr. Chairman. A little further on, the article proceeds as follows:

"During the first seven years more than \$11,000,000 was borrowed in England at 3 to $3\frac{1}{2}$ per cent, and over \$13,000,000 loaned to New Zealand farmers, traders and workmen at $4\frac{1}{2}$ to 5 per cent."

and so on. Later on, towards the end of the article, there is the following:—

"It is estimated that the entrance of the state into the money market has made an average reduction of 2 per cent in the interest charge on over \$300,000,000 of debt, saving \$6,000,000 a year to the producing classes. Without a cent of cost to the taxpayers, thousands have been relieved of the overweight of debt."

I quote this to impress upon the Committee the importance of this rural credit investigation, which is something we will have to relate to our present financial system. I also want to refer to the American legislation which has been brought to the attention of this Committee by a number of witnesses, and also, I think, by Mr. Ladner in his proposition as to a Federal Reserve Board. I would also like to direct attention to the fact that a number of Canadian provinces have already entered this field—Alberta, Saskatchewan, Manitoba, Ontario, and possibly some others. That there is a great deal of public interest in this matter at this time—I may say an especial degree of public interest in this whole question—is shown by the action of the Alberta legislature, the Manitoba Government, and the Canadian Council of Agriculture which has already been referred to. I want to add to that the information that has been secured by the Progressive Party who sent out some time ago a questionnaire to a large number of men of all classes throughout Canada asking them for their opinion on certain points. I have replies to the questionnaire here. I may say that the question-

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naire went out to the secretaries of municipalities, to retail merchants, to ex-cabinet ministers, farmers, government officials and ranchers in various parts of Canada.

Hon. Mr. FIELDING: What parts?

Mr. GOOD: Every member of the Progressive group was asked to submit names to our secretary, and the questionnaire went out to those whose names were submitted.

Hon. Mr. FIELDING: In what territory?

Mr. GOOD: Practically every constituency represented by a Progressive. I have not looked over the replies in detail, so that I cannot tell you exactly the extent of the distribution of the questionnaire, but it was very widespread throughout Canada. I suppose there are certain sections from which Progressive members do not come, as in the Province of Quebec, from which we have not received very much information.

I would also call the attention of the Committee to the protest made by organized labour through Mr. Tom Moore the other night in the statement from which I will just read a few lines.

Mr. SHAW: May I ask a question? You mentioned that a questionnaire had been sent out; can you give us an idea of the results?

Mr. GOOD: Mr. Wayling has gone over all these answers, but he is away just now. We have a sort of condensed report based on the replies, a number of which offer valuable suggestions. At the moment I cannot give you the information you ask for. I was about to refer to the general protest made on behalf of organized labour regarding the workings of our present financial system. You will find it in number 19 of the Proceedings. Mr. Moore says:—

“I have also noted that some of the witnesses who have appeared before your Committee fully recognize the connection between financial control, the banking system and industrial conditions.”

Then he goes on to quote Sir Edmund Walker, and continues:—

“I do not claim to have any expert knowledge of the mysteries and technique of finance and banking and so do not come before this Committee as a propagandist of any particular theory or in any way to suggest amendments to the new Banking Act which is being studied by you. I do desire however, to transmit expressions of opinion on this important matter that are heard daily throughout this country, in the hope that they will be helpful to your Committee in drafting amendments to the Bank Act or suggesting changes in our financial systems which will bring some measure of relief to the thousands and thousands of those who suffer because of the present day chaotic conditions.

“Banking is recognized as a community service and therefore any system which does not give proper recompense to those engaged in its operations and at the same time provide a medium whereby those who produce can become possessed of the things that are made and needed then utterly fails. There is a growing belief that the present financial system does not function for the benefit of the masses but that it is enabling small groups to obtain a strangle hold on nations and that we are faced with the need of immediate and radical changes.”

Now, I think Mr. Chairman and gentlemen, that while Mr. Moore does not profess to be an expert on financial questions, his protest on behalf of those whom he represents is something that this Committee will have to recognize and take into consideration.

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The next point to which I desire to direct the attention of the Committee is this: It has been established, I think, beyond a shadow of doubt, before this Committee, that bankers jointly, exercise a very large power over the price level, over industrial activities. I do not need to elaborate that point; I think it has been absolutely established. In that connection, I wish to submit that we have had a demonstration here of the general ignorance of bankers regarding the relationship between their own business and economic conditions. They do not know, apparently, that they have this power over the price level. One banker did see the point, but most of those bankers who appeared here—I do not wish to speak in any disparaging way of any of them—but they did not know definitely or consciously the power which they possess. Now, I submit, Mr. Chairman, that we have before us a very singular situation. We have a tremendous power over the industrial activities of this country, affecting the welfare of every citizen in the country—a tremendous power exercised by people who do not understand the machinery they are operating. Of course, they understand from the standpoint of banking technique and the local consequences, but the wider consequences of the system they do not understand. I am not saying that I am an authority, but you have had two eminent economists confirm that statement. It looks to me—and I want to say it again without any disrespect—that we have children playing with fire-arms. I do not know the way out, but there must be a way out, and we want a little time to study the way out, as to how this tremendous power which has been growing throughout modern civilization, particularly in recent years, is going to be utilized for the general advantage of the community. The bankers themselves, have no solution to offer; they are satisfied apparently with the present system, and beyond some effective suggestions in the line of rural credits, there is apparently nothing in the way of a solution coming from the banking profession, so far at least as we have been made aware in this Committee room.

In the next place, we ought to keep in mind that we have maturing obligations of nearly two billions of dollars in the next fifteen years. This matter has received considerable attention. In the Ottawa Citizen there have recently appeared editorials upon the subject. There was one this morning to which I would like to refer.

The CHAIRMAN: I do not wish to be unduly severe, but I want to warn you that this cannot go on very much longer. We do not want to hear editorials read, so will you please keep to the resolution. You are leaving the impression on my mind, at least, that you are deliberately killing time. Is that correct or not?

Mr. GOOD: I deny the charge entirely.

The CHAIRMAN: Then what is the purpose of reading from editorials? You are here to speak to the resolution. You have had lots of time during the sessions of the Committee to discuss those things, and our deliberations are not yet over. At present, we are discussing whether or not Bill No. 83 shall be proceeded with this session.

Mr. GOOD: And I am giving reasons why it should not be proceeded with.

The CHAIRMAN: How near do you think you are keeping to the resolution?

Mr. GOOD: I leave that to the Committee. I want to place reasons before the Committee—

The CHAIRMAN: Then give your reasons and we will listen patiently, but do not read from newspapers.

Mr. GOOD: I do not wish to impose upon you, or upon the Committee, and in compliance with your request I will merely refer to those editorials and direct

the attention of the Committee to them. Our financial methods of handling the situation have been called in question very seriously. We have a very serious problem to meet; we have maturing obligations this year, and we have some coming on during the next fifteen years. I submit that we should have more time to study this question in order to know whether or not we have to continue the handling of our finances, as we have handled them recently. Let me refer to one matter which was before the House last year when we borrowed one hundred million dollars from New York. That matter, the matter of handling that loan, has been severely criticised, and do you not think it is a reasonable thing that if there is a danger we ought to find it out.

The CHAIRMAN: This Committee has nothing to do with that. That is for the Minister of Finance, the Government and Parliament to deal with.

Hon. Mr. FIELDING: And it has no bearing on the Bank Act.

The CHAIRMAN: Absolutely, and you know it, Mr. Good.

Mr. GOOD: I do not.

The CHAIRMAN: You are intelligent enough to know.

Hon. Mr. FIELDING: I do not say that it is not a big question, but it does not touch the Bank Act within one hundred miles.

Mr. GOOD: I admit that it is not intimately or directly related to the Bank Act, but it is related to the investigation of the whole credit situation.

The CHAIRMAN: We are not dealing with that resolution now. I told you that before. We are dealing with Bill No. 83.

Mr. GOOD: The fact that we are dealing with this resolution in the Committee which raises a number of important questions is a reason why we should go slowly and take time to consider the underlying principles of the whole question before we hastily commit ourselves to changes in the Bank Act. I am sorry if I am annoying you, Mr. Chairman—

The CHAIRMAN: It takes a lot to annoy me, but I am going to have order here and have the business of the Committee conducted properly.

Mr. SHAW: Surely you are not suggesting, Mr. Chairman, that the investigation connected with Mr. Irvine's resolution has no relation to the Bank Act.

The CHAIRMAN: I say that we are not considering it now; we are considering Bill No. 83 and in the meantime whether we should defer consideration of that Bill.

Mr. SHAW: I appreciate that, but surely the discussion in relation to Mr. Irvine's resolution has a direct relation to the Bank Act.

The CHAIRMAN: It has some relation to the Bank Act, of course.

Mr. SHAW: That is exactly the situation, and that is what Mr. Good is trying to argue.

Mr. GOOD: Mr. Chairman, I am prepared to submit to the judgment of this Committee as to whether or not those matters which I am presenting are not related to the question of whether or not we should conclude the revision of the Bank Act at this session, or whether we should defer the final revision until next session.

Mr. HUGHES: I think the Committee had better decide that at once, and get it over.

Mr. GOOD: Do you wish to appeal to the Committee as to whether or not I shall proceed?

The CHAIRMAN: Are you nearly through?

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Mr. GOOD: I have a few other points to mention.

Mr. JACOBS: Is Mr. Good going to tell us under what rule we can defer consideration, so that we can govern ourselves accordingly.

The CHAIRMAN: Proceed Mr. Good, with your statement.

Mr. GOOD: I wish to be as brief as I can. In referring to the other points, I do not wish to impose on the Committee. The next point I wish to refer to is this: That in our investigation of Mr. Irvine's resolution we have considered the stabilizing of the purchasing power of money. Now, Mr. Chairman, I know you will hardly see the connection but if you wait a moment, I will show you the connection.

The CHAIRMAN: I will wait just a moment. I will not wait many moments.

Mr. GOOD: Two methods of attaining this very desirable and important result have been suggested to us: one by standardizing the standard, or, as Professor Irving Fisher said, altering the gold content of the dollar; and the other is through the control of the volume of credit instruments. Now, that matter was submitted to the Genoa conference a little while ago, and it is a matter which could be submitted to the economic conference next October. I want to submit to this Committee that if we are going to help the stabilizing of the purchasing power of money through the control of bank credit instruments, you will have to have the co-operation of our bankers, we will have to have control over our banks. That question is most intimately related to our banking system, and if we are going to get anywhere, that is a matter that we ought to consider, and I submit that is a matter in regard to which we do not see our way very clear at the present time. It is an important matter, and one that is intimately connected with our banking system; and therefore we ought to take a little more time to consider it. I refer to the economic conference that is to be held during the coming fall. There is another opportunity of joint action between Canada and other nations in the British Empire, and possibly with the United States, such as Professor Fisher suggested here a week or two ago.

I also submit that we know practically nothing as yet of the Commonwealth Bank of Australia. I have an item here which I cut out of the *Farmers' Sun*, but which I will not vex the Chairman by reading. It is a recent statement of what the Australian Commonwealth Bank has done. We do not know anything about these matters and we ought to know. The suggestion has been made to establish a sort of national bank. The proposal has come from the Conservative side of the House, regarding a Federal Reserve Bank, and I submit that that is a matter which we ought to have time to consider and study. Then some time ago we had Professor McGibbon's report referred to, and it was stated that he would appear before the Committee to tell us about the investigation which he had made in Alberta regarding the actual operations of the banks there. I understand that he has made a suggestion as to the appointment of a banking commission. These are matters to which we have not given any attention.

Another question has been brought up by Mr. Shaw regarding the necessity or the desirability of looking into the Merchants Bank fiasco. That is a matter of considerable importance in the minds of the people of Canada, and we ought to look into that question, possibly, before we decide finally as to the disposition of this Bill. Then let me point out in conclusion that we have a large number of important amendments to consider. The House is in session and some members do not want to stay here all summer, but we are prepared to stay on the job, if we are to do the job properly. Would it not be better to

take time to consider those matters thoroughly? What is the hurry? Ten years ago the banks were given a temporary extension of their charters. Let us all take time to look into the matter a little more carefully, and come back fresh next year to start at the beginning of the session to deal with revision. If there is anything to be said on the other side as to why this should be hastily rushed through this session when we are pressed with a lot of other things, the budget debate for instance, I would be glad to hear it.

Mr. W. F. MACLEAN: I want to say that I am more or less in accord with the view that the Bank Act should go over for another year, and mainly for this reason that the war has shattered most of the organizations we have had among other things the financial system. The financial organization has been more or less shattered by the war, and all kinds of efforts are being made to remedy the situation and to improve the conditions of banking and credit in the various countries concerned, and probably by co-operation between the different countries to restore conditions. In connection with this Bank Act, several very important proposals have been made which will take a long time to consider. The bank merger must be prohibited, or at least regulated better than it is now. I would have a provision in the Bank Act that the banks should be made to supply more capital than they do at present for carrying on the business of the country. I could name banks whose entire paid up capital stock is all invested in buildings, and who have not a dollar, so far as their own subscribed capital is concerned, to help the business of the country along. Then, as has been pointed out, we have enormous commitments in this country which are becoming due, and we hardly know how they are to be met. We have to go to the banks, and yet we lie alongside a nation that has established a national reserve bank system which is closely associated with the credit of the nation, and which compels every national bank, and many other financial corporations, to become members of that system. That will take some time to consider. I could refer to a number of other questions that should be taken up. There is the investigation of the Merchants Bank, but I will not go into that. I have a suggestion to make, and I make it first of all to the Minister of Finance. Is the way out not to be found by the appointment by the Government of a commission of three or five of the ablest men they can get to review the whole situation? Make a banking representative a member of this commission, and give it instructions to attend the congresses or conferences that are to be held to consider this question and come back with the concrete proposal, including the creation of a national reserve bank system in this country which would take control of the issue of notes, and which would treat the banks fairly and liberally in the way of getting national notes for doing their business; compel them to set down their so-called national gold reserve that they maintain in Montreal, which is a very different thing from the national gold reserve of the state maintained in Ottawa. All these things should be considered, and my suggestion to the Minister is that he would make no mistake if he would renew the charters for a year or two years, and in the meantime, let us have a high class commission to study this question, and the associated question of loans to farmers which has been dealt with in the United States by the Loan Corporation Bank, of which the Secretary of State is the head, but additional members of which are appointed by the President. No party can have more than three representatives on that board. That makes the national reserve bank system of the United States. We have also got to deal with one other matter, and that is the creation of a finance corporation. The substance of the legislation pertaining to the finance corporation is on the same lines as the legislation which created it in the United States, and it is absolutely in the interests of the banks of this country that some provision in the finance corpora-

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tion legislation that they have should be made a portion of the Bank Act of this country. A commission should investigate those things. That is my suggestion here to-day, and I believe the banks would accept it. When I say that, I want to point out that the greatest thing in the way of meeting the situation in the United States is a national reserve banking system. It was opposed when it was created by every banking association in the States, but to-day everyone is saying that it is the best thing that ever came to the United States, and I think it should come to this country. I ask the Minister of Finance to accept that suggestion and renew the bank charters for another year. Let this thing be investigated. Let the members have a chance to study the evidence. It is not for me to suggest what the Government ought to do as regards their policy, but let them extend the bank charters, let them put through the redistribution measure and their budget proposals and all that, and by another year, public opinion will have crystallized in some definite direction. Objection might be taken to Mr. Good reading editorials from the newspapers, but public opinion has not yet had an opportunity of crystallizing itself in this country, nor in any other country except the United States, where they have a splendid organization to meet the new conditions created by the war. I am not going to tire the Committee any longer, but I think my suggestion is worthy of consideration. The Bill will have an opportunity of coming up in the House for discussion, and therefore I am disposed to vote for the proposal to put over the final discussion on revision of the Bank Act for another year.

Mr. HARRIS: I rise to oppose the resolution as it is constituted at the present time. In my humble opinion, sir, at the present time in the Dominion of Canada, public opinion is being worked up to a point where they are not, perhaps, having the same amount of confidence they should have in the institutions which are looking after the financial affairs of the Dominion of Canada. If this resolution passes this Committee to-day, public opinion is going to be stirred up and we are going to have them read and re-read and hash and re-hash all the evidence given before this Committee, and then when the next session starts, the same vicious circle will start again. This Bank Act is not something new; we have had it with us for a long time, and it is stable, one of the best institutions in the world, and I feel that this House ought to at least pass this Bill and show the people of the country that we have a Bank Act and banking institutions which command not only the respect of the people of the country, but that we have a Bank Act which is the best thing for the people of the country, and on these grounds I oppose the resolution.

Mr. FIELDING: In speaking to this resolution, I want to bear in mind the admonition of the Chairman about brevity. I think a very few words will suffice to express my views. Of course, there are features of these financial matters that we have been discussing, concerning which there will be wide differences of opinion. There have been such differences in the past, and there will be such differences in the future to the crack of doom, no matter what our Committee may do here, no matter what our Parliament may do. I agree with one or two things that my friend, Mr. Good, has spoken of, that there should be no hurry. Heaven knows there has been no hurry. If an enquiry were made as to the methods of this Committee, it would show that at once. Then, he says that we should take time. Some of us have been taking a great deal of time. I think there is no lack of that. No good reason, I believe, can be given for the postponement of this Act, proposed by the resolution. In the first place, I believe no measure ever brought before the Parliament of Canada has afforded a greater opportunity for enquiry, discussion, and consideration. We have had ten years notice of this Bill, we have had a standing notice for ten years. Once

in ten years this Act is revised, and immediately you start the next period, the Bank Act has its critics, and as you approach the period of revision the discussion takes place. The discussion to-day is not new, we have had it in the last two or three years, and we have had ten years notice. Then, look at it more closely; when we came to Parliament this fall, this was mentioned in the Speech from the Throne. That is worth remembering; one of the things Parliament got notice of was that this was a matter that Parliament would be asked to take up at once. Did that indicate any desire to rush things? This Bill was brought forward at a reasonable time; being brought forward at a reasonable time, it was sent to this Committee, and therefore no honourable gentleman can pretend that there is any desire to hurry things. Do not, for a moment, get the notion that anybody is trying to rush this thing, that there is any lack of opportunity to consider it fully. I repeat the statement that no bill ever brought before Parliament, in my recollection, afforded a larger opportunity for enquiry, debate, and consideration than this particular Bill. Now, if you postpone it, what does it mean? One of the reasons given is that ten years ago it was postponed for a year. There was a reason for that. A change of government had just taken place, and a new government was in power. They might fairly claim that they had no opportunity to study this, and they granted a postponement. There is no such condition to-day. There is no reason in the world why this Bill could not be passed to-day just as well as next year. If we postpone it, we will go over the whole ground again; we will meet next session under precisely the same conditions as to-day; we will have another committee appointed; we will have men called from all the four quarters of the earth to ventilate their various—I will not say fads, that is offensive—their various opinions on financial affairs, their new notions. While the world lasts people will have such notions and you will simply need to go over the whole ground again. You will have people brought from the four quarters of the earth and other people called to answer them, and you will reach the end of the session just where you are now. Then, we are told that there is the question of rural credits. We have decided that that shall be left to another Committee. There is no necessary connection between that and this Act. All the bankers have said that there may be need of a rural credit system, but they say that is not banking; banking is short term credit. They say that long term credit is not banking. I am rather impressed with the view that there is a field between the mortgage company and the bank which perhaps is not fully occupied. It is occupied partly to-day by the Provinces. Whether that should be extended, or another system created, is a fair question, but it is not affected by the Bank Act at all. If you have a new system of rural credits, you will still want the Bank Act, and while I do not say there is no relation, there is no connection.

Mr. W. F. MACLEAN: In the Federal Reserve of the United States, every bank is authorized to do business through them.

Hon. Mr. FIELDING: My honourable friend is too anxious to go to the United States for his examples.

Mr. W. F. MACLEAN: I do not think that the Finance Minister should say that.

Hon. Mr. FIELDING: Very well, I apologize for that. Sometimes I am accused of having desires to go to the United States for certain things.

Mr. W. F. MACLEAN: Yes, you have put such a resolution on the Order Paper.

Hon. Mr. FIELDING: What do you mean?

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Mr. W. F. MACLEAN: In your budget amendments; you are going to Washington, and have been there before, and I hope you go again, but do not make me a sinner when you are such an offender yourself.

Hon. Mr. FIELDING: I am trying to make amends for the crime that was committed in 1911, when this country lost the opportunity of obtaining a reciprocity agreement, for which the country is suffering to-day. That is what I am trying to do. However, that is a controversial question. Now, we are told about the War Finance Act. That Act again has no connection with the Bank Act. We had no War Finance Act when the Bank Act was in force in bygone years; that was a special act to meet special conditions; it is still on the statute books. You do not need to have the two of them together. However, I do not want to enlarge the question. I believe if the Bank Act is postponed in the way in which it is proposed, I believe you are going to create—not a panic—one of the gentlemen speaking to-day spoke of the danger of a panic; I do not think that; the Canadian people are too sane to have panics—but there will be a condition of unrest, gradually increasing the unrest we have to-day. What Mr. Harris said a moment ago is only too true. People have been creating the impression that the institutions of this country are not sound. I believe the Bank Act, in the main, is a good sound act. We are trying to make some amendments, and before we get through we will probably come to an understanding by which we can put some guides here, some checks there, but respectfully and urgently, with all due regard to my friend Mr. Good, and the other gentlemen, I say if this goes over for another year you are going to create business unrest and business trouble and a condition of affairs which is not for the good of this country. Let us go on with this Act, and make it as good as possible, and put it through this session.

Sir Henry DRAYTON: I think in this particular instance, what Parliament has a right to expect from the Government, just the same as in other cases, is action. We have tried to get action, we have criticized the Government because there has not been action. We want certain changes which I think probably are necessary. The last thing in the world I think we should do to this Government at the present time is, when they want to do business, to say, "You shall not do business." One of the best things my honourable friend did in his budget was to say, "We want stability." I think we will probably move along the lines towards stability if we make clear at this session, before we leave, that business can be carried on in Canada and will continue to be carried on in Canada, subject to such amendments and improvements as we may be able to make. I just want to point out this. I do not suppose there is anybody that is more responsible—I do not think it is a matter of blame—than myself for the large range which the investigation has taken this year. I thought we should have it. We have had it. I have not been present at all the meetings, but I heard Mr. Bevington, and I heard Mr. Douglas, and I read that part of their evidence which I did not hear. They laid down what were the chief lines of divergence between our present system and the system that they think ought to be. As I read their evidence—and if I am wrong I hope some honourable gentleman will correct me—both these gentlemen said that the banks ought to continue. Both of them said they found nothing wrong with them, and further the underlying basis which either of these gentlemen proposed could be put into force, as I understand their suggestions, without the change of one single line of the Bank Act. Therefore, why delay? This does not say that proper consideration ought not to be given to any changes in the underlying system which Parliament may think ought to take place. Take rural credits. The Minister is perfectly right about rural credits. We deliberately,

ourselves, came to the conclusion that rural credits were not to be considered in connection with the Bank Act. That is what we did. Surely when we have done that, simply because there is that very vital question to be considered and determined, because it ought to be determined, is no reason for delaying the Bank Act. Then again, in connection with what Mr. Maclean says in connection with the reserve banks, that question has nothing whatever to do with our Bank Act, any more than the Bank Act was shot to pieces because we had the war finance legislation in 1914. The banks continued just the same, the Act continued just the same, and under that legislation we have practically a Federal Reserve system to-day. Now Mr. Chairman, I am not going to delay the Committee at all except to say that if there is one thing the country desires from the Government it is action. We want to see something done that is going to prevent what has happened in the last year. We want to get busy, we want to get more business, we want to get more stability, and the way to do it is certainly not to prevent the Government taking action when they have the opportunity.

Mr. ELLIOTT (Dundas): The gentle slam that Hon. Mr. Fielding handed out about time will not, I think, apply to me, because this is the first time I have said anything in this Committee. I am going to support this resolution for different reasons, and one of them is this: I feel as a member of this Committee that we have had a great responsibility thrown on us. A good deal of evidence has been submitted here, and I think before we can act justly towards both the public and the banking institutions of this country, we should have sufficient time to digest this evidence that has been submitted to us. The numerous amendments that have been proposed by different members of this Committee are positive proof that our present Bank Act is not perfection. Here is another thing. The failure of the Merchants Bank has not ever been explained to the satisfaction of the public, and before we can revise this Bank Act to prevent a repetition of this, we must have more information. Now, the suggestion has been made here that by holding this revision over for another year we will disrupt business. I cannot see how an extension of the charters of these banks for one year will have any influence whatever on the business of the country. We would be under the same conditions that we are to-day. Now, I think another reason is that there is a great deal of dissatisfaction through this country to-day—perhaps not justified—and I want to make myself clear, that I am not speaking in a spirit of antagonism towards our banking institutions—but I believe if the banks are occupying an unstable position to-day, they should not be afraid of an inquiry; in fact, they should welcome it. For that reason, I am going to support that resolution.

Hon. Mr. STEVENS: Mr. Chairman, I would like to crystallize some of the objections in the form of an amendment to the motion, which I have drafted. I may say that I read over the motion of Mr. Speakman with great care during the interim, and drafted this amendment, and I am glad to say that it fairly well, I think, expresses what was said by the Minister of Finance, and I am happy to find myself in accord with him on the subject. I will read the amendment and perhaps make a very brief observation on it. I move, seconded by Mr. Black:

“That all the words after the word ‘that’ in the first line thereof be struck out and the following be substituted therefor:

‘This Committee, having heard numerous witnesses and accumulated a large volume of evidence, is of the opinion that there exists a most urgent demand for long term loans at a lower rate of interest, more particularly to the agriculturist and small producers, based on an amortizing plan; and, further, as such class of loans lies outside of the functions of

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ordinary banking, this Committee is of the opinion that the revision of the Bank Act, together with careful consideration of the proposed amendments thereto, should be proceeded with forthwith, but that all the evidence taken before this Committee be submitted to the Minister of Finance, with the request that his department with the assistance of such expert advisors as may be necessary, make a careful examination and analysis of said evidence, and prepare and submit to the next Session of Parliament a scheme to meet the just and reasonable demands for term credits at more reasonable interest rates."

Now, I wish to say this: I rather take objection to Mr. Good's suggestion that we have not been attending the Committee very regularly. I think a number of us have given scrupulous attention to the affairs of this Committee. I know I have given to it, as far as I am concerned, my best attention and study, and I think a good many others have also, and are prepared, after a perusal of the evidence to proceed to the consideration of the Act. But at the same time I am convinced that there is a field or demand for credit of a type not generally recognized as current banking business, and personally I would be very loath indeed to close this session, or to take a stand which would indicate that this field should not be thoroughly explored. So this resolution, if adopted, which I suggest will take care of that part of our work. The Minister of Finance and his colleagues will treat it as they may deem wise, and in the meantime we can give further study and be prepared next year to deal with that very important problem. I cannot agree with the arguments that have been advanced for further postponement of the Bank Act this year. I am not going to follow those arguments as presented, but I join with others who have spoken, in the view that it will be in the best interests of the country to go ahead with the work of passing the Bank Act.

HON. MR. FIELDING: I would point out that at the close of this resolution you are apparently giving instructions to the Finance Department as to what it is to do in the preparation of a report. I modestly decline to accept that. I have no objection to having it referred to us, but I think no instructions should be given as to how the Finance Department should act next year.

HON. MR. STEVENS: It was not so intended.

THE CHAIRMAN: Would it not be better for you to take that up as a subsequent motion, later in the Committee, when we are closing up our business?

HON. MR. STEVENS: If I might further state my view—without going into details it is this: I do not wish to be put in a position of arbitrarily and definitely opposing all that Mr. Speakman's motion calls for. I have a good deal of sympathy with certain parts of that resolution, and I would be rather seriously put to it to vote a definite negative to the whole resolution. This expresses my view in that regard, and I think the view of some others. If you will just permit me for one moment, I will readily meet the Finance Minister's suggestion:

"—and prepare and submit to the next session of Parliament a scheme to meet the just and reasonable demands for long term credits at more reasonable interest rates."

HON. MR. FIELDING: Yes, that is the part. I do not want to take instructions of that kind. We have no objection to looking over the evidence, because we would naturally do that anyway.

HON. MR. STEVENS: Surely the Minister of Finance cannot object to this Committee referring this problem for his consideration.

HON. MR. FIELDING: There is no objection to that, if you will stop there.

Hon. Mr. STEVENS: We will stop there, then.

Hon. Mr. FIELDING: What do you mean by "analysis"?

Hon. Mr. STEVENS: The minister knows what that means. Surely he does not want me to follow Mr. Good's example and go into an hour's dissertation on that.

Mr. MITCHELL: Could that resolution be read again, so we will all understand it.

The CHAIRMAN: To meet Hon. Mr. Fielding's objections, the resolution as now worded is as follows:—

"That all the words after the word 'that' in the first line thereof be struck out and the following be substituted therefor:

"'This Committee, having heard numerous witnesses and accumulated a large volume of evidence, is of the opinion that there exists a most urgent demand for long term loans at a lower rate of interest, more particularly to the agriculturist and small producers, based on an amortizing plan; and, further, as such class of loans lies outside of the functions of ordinary banking, this Committee is of the opinion that the revision of the Bank Act, together with careful consideration of the proposed amendments thereto, should be proceeded with forthwith, but that all evidence taken before this Committee be submitted to the Minister of Finance, with the request that his department, with the assistance of such expert advisers as may be necessary, make a careful examination of said evidence.'"

Mr. W. F. MACLEAN: I rise to a point of order, in regard to that. We were not to trespass on the functions assigned to the Agricultural Committee which is now discussing that, and are we not making a report for them now? I object to that. The Chairman only a while ago ruled my friend out, or warned him that he was trespassing on the functions of another committee. Now, my friend from Victoria is doing the same thing, like the respected Minister of Finance in saying that I was saying something I should not say, when I was only doing something for which he had set the example. Now, I ask for a ruling on that, whether, inasmuch as the Chairman and the Minister of Finance and the ex-Minister of Finance have all said that this question is not pertinent to the Bank Act, we are trespassing on the functions assigned to that other Committee, and therefore I say that we should not do this. This Committee should leave its brother committee, which is equal in every respect, and has been charged with this duty, and is dealing with it to-day—why not leave it with that committee?

The CHAIRMAN: Mr. Maclean, if you are appealing for my judgment on the matter, it would be that the amendment be abandoned. I think the best way to settle this is to take a straight vote on the resolution and Mr. Stevens

Hon. Mr. STEVENS: Do you rule it out of order?

The CHAIRMAN: No; I am appealing to your judgment in the matter, and I would submit to you that I think in all the circumstances it would be better to withdraw it. At a later date in the deliberations of the Committee we may deal in some way with this matter, and with matters that were referred to us in Mr. Irvine's resolution. We are not dealing with that to-day.

Mr. IRVINE: I was just going to say that if you allowed this amendment, it might give rise to a good deal more discussion, because I think it would seem as though this Committee had come to the conclusion that some amortization

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plan should be proceeded with, and I am not sure that we have come to that conclusion.

The CHAIRMAN: We have not considered that; there are many phases to rural credits before we should attempt to make even a general declaration. Then further, Mr. Stevens, as I intimated at the beginning of our proceedings this morning, this motion of Mr. Speakman's is undoubtedly out of order, and no member of this Committee has the privilege of making a motion that we do not proceed with this business, because the Bill is before this Committee with directions from Parliament that we deal with it and report it with or without amendments, and I fear that if I am asked to make a decision as to whether or not this amendment is in order, I shall have to rule the whole thing out of order, and perhaps then the whole day's proceedings are gone.

Mr. W. F. MACLEAN: May I just rise to a question of order. It is this: I say that this Committee, any Committee of Parliament charged with dealing with a question, can bring in a report that legislation go over for another session. If that is the attitude of the Chairman, I say it is absolutely unparliamentary, and he cannot maintain that and cannot go back to the House and get the approval of the House to that dogma.

The CHAIRMAN: I can give you authority for that decision. The Bank Act, Bill 83, is the order of reference from the House to this Committee. We have instructions to consider it.

Mr. W. F. MACLEAN: And we can report that it go over for another session.

The CHAIRMAN: No, we cannot. The parliamentary authorities long ago decided that. As I stated this morning, I do not want to rule the motion out of order, because it might be taken up in another way by an amendment to the Bill. We have had an ample discussion of it, and I would think the best way now is by a direct affirmative and negative vote. If Mr. Stevens will not accept my suggestion I will have to make a ruling.

Mr. CALDWELL: Might I speak to a point of order raised by the member from South York? As a member of the Banking Committee and also as a member of the Special Committee on Agricultural Conditions, I think Mr. Maclean's point is well taken, that the amendment is out of order, due to the fact that the question of rural credits and long term loans has been referred to the Special Committee on Agricultural Conditions.

The CHAIRMAN: Yes, we have had that several times, Mr. Caldwell.

Mr. CALDWELL: This amendment means this: supposing a majority of this Committee believes that the revision of the Bank Act should go over to next year, that same majority of the Committee might think that we should have rural credits, but we are now asked to vote against rural credits, or to endorse the revision of the Bank Act this year, which we are not ready to do. I submit that it is a catch resolution. It is meant to embarrass those who want rural credits but who do not want the Bank Act revision; or on the other hand, it is meant to embarrass those who do not believe in rural credits and who want the Bank Act to go over till next year. I think Mr. Maclean's point is well taken.

Mr. W. F. MACLEAN: Perhaps the amendment of Mr. Good should be made when the Bill comes up in Parliament.

The CHAIRMAN: Have you anything further to say Mr. Stevens, on the matter?

Hon. Mr. STEVENS: No.

MR. BLACK: If you insist, Mr. Chairman, in ruling it out of order, your ruling should be made on the main motion, because the amendment is certainly not out of order unless the main motion is out of order.

THE CHAIRMAN: Are you appealing to me on the main motion?

MR. BLACK: No, but if you are going to rule the amendment out of order you should rule the main motion out of order.

THE CHAIRMAN: I rule that both the amendment and the motion are out of order. In the discussion on the matter this morning, I made it very clear to the Committee that in order to give some of the members of the Committee an opportunity to discuss the resolution I would allow it to go on. Perhaps I was wrong in reaching that conclusion, and I think the opportunity has been rather abused; but I rule both out of order now. We will now proceed to the consideration of Section 88, Clause 7.

MR. SPEAKMAN: I understand that your ruling is that the motion is out of order.

THE CHAIRMAN: Yes.

MR. SPEAKMAN: Would you mind stating the ground of your ruling.

THE CHAIRMAN: It is on the ground that we cannot exceed the directions of Parliament. I quote from May:

"In the case of a select committee upon a Bill, the Bill committed to it is itself the order of reference to the Committee. You must report it with or without amendment to the House. The proceedings of every select committee are restricted to their own order of reference, that is to say, they are confined to the consideration of the matter referred or of the Bill committed to the Committee."

Of course, that is quite obvious. When a Bill passes the second reading in the House, it is the judgment and direction of Parliament that we consider the Bill. I am sure that Mr. Speakman understood that himself.

MR. SHAW: The Minister of Finance, who, I suppose, is responsible for the Bill, was present at this morning's session and consented to the arrangement to go on with the discussion of the motion.

HON. MR. FIELDING: I said that I hoped the motion would not be ruled out of order, as I preferred to have it gone on with.

MR. SHAW: Then we have this position: The Minister of Finance gave his consent to the motion, and I would therefore suggest, Mr. Chairman, that your ruling is in error, and I would appeal from your ruling to the Committee.

HON. MR. FIELDING: My consent would not make it a rule. I said I was prepared to go on.

THE CHAIRMAN: And I was prepared to go on if an honourable member did not raise the point. Mr. Black has now raised the point.

MR. BLACK: The Bill is not referred to this Committee by the Minister of Finance, but by the House, and the consent of the minister does not alter the judgment of the House.

MR. SHAW: The point, as I understand it, is that the Minister of Finance, who is fathering this particular Bill, consented to the motion which Mr. Speakman made.

MR. W. F. MACLEAN: He cannot violate the Parliamentary rule more than anyone else.

MR. SHAW: The Minister of Finance having given his consent, I think the Chairman is in error in now ruling it out of order.

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Hon. Mr. FIELDING: Mr. Shaw's statement of my opinion is quite correct, but that does not make it a rule of the House. I did not want to take any technical advantage of those who wanted to discuss the motion. I am not prepared to say, after hearing the opinion of May, that May is wrong.

Mr. SHAW: If I may, I will read the section in May.

The CHAIRMAN: I was quite prepared to take a vote on the resolution, but Mr. Stevens' interjection of an amendment changed the situation, and Mr. Black raised the point of order. I am quite powerless in the matter; that is why I read the opinion of May, and I may say that I have the endorsation of the Deputy Speaker of the House on my ruling.

Mr. CALDWELL: May I speak to Mr. Shaw's appeal from the ruling of the Chair? If Mr. Speakman's resolution or amendment this morning was that this Committee shall not report this Bill back to the House, I submit that it would be out of order. But he has not moved any such resolution. May provides that we may report the Bill back with or without amendment, and Mr. Speakman's motion was an amendment to the Bill that the Act be not revised this year.

Some Honourable MEMBERS: No, no.

Mr. CALDWELL: I am supporting Mr. Shaw's appeal from the Chair. I have consulted some of the best authorities in the House on the matter since this morning, and I have the assurance that this motion is not out of order, and therefore it should not be ruled out of order.

Mr. JACOBS: I understand, Mr. Chairman, that the ruling is that this matter is completely out of order.

Mr. SHAW: There is an appeal from the Chair's ruling. On page 421, May says:—

“When, however, a Committee has made progress with a Bill and circumstances have arisen which render further progress undesirable, a motion has been accepted from the Member in charge of the Bill, ‘that the Committee do not proceed further with the Bill’, if such a motion is agreed to, the Bill is ordered to be reported so far as amended to the House.”

Now, my suggestion is that the motion was undoubtedly out of order but that the Minister of Finance gave it his benediction, and that consequently we are in the position of being in order.

Hon. Mr. FIELDING: I would have made a motion quite the opposite if I did not want to proceed with the Bill. I was content to proceed with the Bill. I could not have made the motion that he quotes.

The CHAIRMAN: I have ruled both the amendment and the motion out of order, and if any Member desires to appeal, he may appeal to the Committee.

Mr. GOOD: Do I understand that Mr. Shaw has appealed to the Committee?

The CHAIRMAN: No. I did not understand that.

Some Honourable MEMBERS: Carried.

Mr. SHAW: What is carried?

The CHAIRMAN: The motion that we proceed to the consideration of section 88.

Mr. SPEAKMAN: I wish to say—

The CHAIRMAN: We will hear your amendment later.

Motion to proceed to the consideration of section 88 declared carried.

The CHAIRMAN: Mr. Casgrain moves the following amendment:—

“That subsection 7 of section 88 be amended by adding after the word ‘months’ in the eleventh line thereof the following words: ‘and any claim by an unpaid vendor of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid’, and by adding after the word ‘remuneration’ in the thirteenth line thereof the words ‘and such claim of an unpaid vendor’.

“That subsection 2 of section 89 be amended by striking out all the words commencing with the word ‘who’ in the ninth line thereof down to the end of the subsection and by substituting therefor the words ‘of or in respect to such products, goods, wares and merchandise to the amount remaining unpaid’”.

Mr. CASGRAIN: The object of the amendment is to protect the unpaid vendor of certain goods, supplies or material. Section 89 has also to be amended in this connection, and I propose to change the last proviso. The amendment may be changed and simplified by putting in line 3 of the subparagraph the word “not” between “shall” and “give”; also by striking out the words beginning “provided that” at the end of the subparagraph.

The CHAIRMAN: Mr. Leman, one of the bankers, is here, and he might tell us what the effect of the amendment might be.

Mr. LEMAN: Briefly, it defeats to a very large extent the purpose of section 88. If you look at section 88 as granting a privilege to the bank, that is one view of it; but there is the other side of the question of giving an opportunity to a large number of manufacturers and small dealers of being in a position to give the banks satisfactory security. If there is left an unpaid vendor's claim, the bank will never know whether it holds satisfactory security or not, and would naturally avoid making advances of that nature, and the people who require that assistance to a largest extent will suffer, I think, greatly under this provision. If I understand rightly the amendments suggested by the Minister of Finance to Section 88, it was an objection to undisclosed lien or mortgage in favour of a bank which other parties would not be aware of. While your unpaid vendor's claim is an undisclosed claim or mortgage on property, before the bank could make advances under Section 88, the goods must be in the physical possession; they must be owned by the party who borrows from the bank, and the advances from the bank have to be made simultaneously with that security. So the bank gives them this money when it takes over the security; it does not adversely change the position of the borrower, and it enables those borrowers—and I must strongly impress this upon the members of the Committee that it is that particular class of the small industrial, the small manufacturer who benefits under that clause, and who requires the greatest measure of help from the banks.

The CHAIRMAN: Mr. Bogert, of the Dominion Bank, is also here, and perhaps we might hear from him on this amendment.

Mr. SPENCER: Are these gentlemen giving evidence?

The CHAIRMAN: They are making a statement. It was understood, I announced it several days ago, that during our consideration of the clauses of the Bill we would try to have a couple of bankers here to give us any information we might desire.

Mr. SPENCER: I understand that, but this Bank Act is just as important to other classes as it is to the banker, and we have not got the other people represented here. The bankers are not only represented here but they have their legal representatives besides members of Parliament looking after their interests. It seems to me that we are taking evidence lopsidedly.

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The CHAIRMAN: I just thought that the Committee would like to hear the practical side, because it is a matter which, I suppose, most members of Parliament have very little idea about, that is, the practical operations of a section like this. We will hear from Mr. Bogert.

Mr. BOGERT: Mr. Chairman, and members of the Committee, I simply desire to say that, in my opinion Section 88 is the most important probably, from the viewpoint of the borrower particularly, of any section in the Act now under revision. In the past, I think it has worked admirably; it has enabled the banks to supply capital to individuals or firms or companies who are not in a sufficiently strong position to operate as they would like to do. The objection that has been raised is that the vendor does not receive sufficient protection, and that occasionally he suffers hardship in the priority given to the bank. That, sir, may be the case, but there is an amendment to the Act under which liens of that character possessed by the banks are registered, and I think that that should overcome the objections that are raised by those who are interested in the other direction. Of this I feel quite certain, the banks lend very large amounts of money under this section. I would roughly estimate that loans under Section 88 would probably be in the neighbourhood of \$200,000,000. With the changes that are suggested by this amendment, I feel assured that the banks will not feel justified in loaning to the same extent under this section as they have done in the past.

Hon. Mr. FIELDING: I am afraid that in considering Section 88 we are prone to make the mistake of regarding it as a privilege to the bank. It is a privilege in a way, but it is really a benefit to the borrower and if you restrict it, it means that the borrower will not get his money. I think that in introducing the amendment by which notice must be given and filed in the registry office, we have gone about as far as we can to interfere with Section 88. Even that is a restriction but I think it is a reasonable one. If you restrict Section 88 too much, you are not hurting the bank, you are hurting the small borrower who will not be able to get his money.

Mr. GOOD: I would request that we hear from one of the bankers as to what the difficulties are.

The CHAIRMAN: Mr. Bogert, will you answer that?

Mr. BOGERT: I would say it would be impossible for the bank to follow, from day to day, the transactions of its borrowers as is suggested.

Mr. GOOD: What would the risk be?

Mr. BOGERT: I cannot tell you that; there are cases that arise continually. The borrower has to make a declaration, I think, that he is the owner of the goods, but I do not think a bank should be asked to take the responsibility of following the dealings of its borrowers from day to day.

The CHAIRMAN: He must be the owner before you make any advance?

Mr. BOGERT: He has to make a declaration to that effect.

The CHAIRMAN: He must, in your judgment, be the owner of the goods?

Mr. BOGERT: He must be the owner.

The CHAIRMAN: Generally, do the advances made go to pay for the goods bought; is that part of the reason for the advances?

Mr. BOGERT: Yes.

The CHAIRMAN: Frequently?

Mr. BOGERT: Frequently.

Mr. COOTE: May I ask Mr. Bogert whether this declaration that the borrower takes out, stating that he is the owner of these goods, if in this declaration he must state that he has paid for the goods?

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Mr. BOGERT: The form is there, and I think it does say so.

Mr. COOTE: Would you state that positively?

Mr. BOGERT: No, I would not.

On being put to a vote, the amendment carried.

The CHAIRMAN: The Committee will now adjourn until to-morrow morning at 11 o'clock.

The Committee adjourned until Wednesday, May 16th, at 11 o'clock.

DISCUSSIONS

WEDNESDAY, May 16, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., the Chairman, Hon. A. K. Maclean, in the Chair.

Hon. Mr. FIELDING: There is a clause in the bill designed for a purpose with which I am sure the Committee will sympathize, and that is with regard to the practice of irresponsible persons receiving deposits, and doing business in that way. In the clause that is now in the bill we require a municipal license, supposing that the municipal authorities will have local knowledge of the person concerned, but several objections have been made to that. It has been suggested that the municipal authorities may be unwilling to do any such work at all. Another objection is that municipal politics might be brought into play, and it is just possible some local influence might prevent the man getting the license. I am going to give notice of a clause, as a substitute; I am not sure it satisfies myself, but it is the best we can do. The proposal is to strike out the portion referring to municipal enquiry, and to say that when any person brings this to the notice of the Minister of Finance he may take steps to have an enquiry made, and he may then give notice to the party concerned that he must cease doing business, or make a deposit, or do something to guard against the danger.

Mr. COOTE: Mr. Chairman, if I am in order, I would like to move that this Committee should not sit while the House is in Session, except for the purpose of hearing witnesses. This should only apply during the Budget.

Discussion followed.

The CHAIRMAN: This Committee decided on motion, some while ago, that we might meet during the sittings of the House. The motion proposed by Mr. Coote is an amendment thereof, and I think we had better construe it as a notice of motion.

The Committee proceeded to the consideration of the Bank Act.

Mr. COOTE: Proposed an amendment to Section 13, by striking out the word "five" in the first line, and substituting therefor the word "one", and by striking out the words "two hundred and" in lines 5 and 8 thereof.

The CHAIRMAN: The effect of Mr. Coote's motion is to require \$100,000 capital for a bank instead of \$500,000, and a paid up capital of \$50,000 instead of \$250,000.

On a vote being taken, Mr. Coote's amendment was declared lost.

The CHAIRMAN: There is a further amendment to Section 13 moved by Mr. Ladner. It will be found on Page 5 of the proposed amendments. It means that for the first organization meeting, the provisional directors must give notice of four weeks.

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Hon. Mr. FIELDING: I do not think there is any objection to that. It is an additional precaution by way of notice.

Mr. LADNER: The purpose of this is to enable the subscribers of stock to have personal notice of the first meeting. As the Act stands now, they only get notice through the newspapers; by this amendment they will receive personal notice.

Amendment carried.

Mr. LADNER proposed an amendment to Section 11, by insertion therein of the following:

"A provisional director shall not be eligible to act as such unless he be a *bona fide* subscriber of stock of the bank for and on his own behalf, to become the absolute and sole owner in his individual right of such stock, and not as trustee or in the right of another, on which subscription not less than—

(a) three thousand dollars have been paid up, when the paid up capital stock of the bank is one million dollars or less;

(b) four thousand dollars have been paid up, when the paid up capital stock of the bank is over one million dollars and does not exceed three million dollars;

(c) five thousand dollars have been paid up, when the paid up capital stock of the bank exceeds three million dollars."

Amendment declared carried.

Hon. Mr. FIELDING proposed an amendment to Section 76, clause C of subsection 2, that the words "and not exceeding ten thousand dollars" be struck out.

Amendment declared carried.

Mr. MARLER proposed an amendment to Section 79, subsection 3 (b) by inserting the words "or hypothèque" immediately after the word "mortgage," wherever it occurs.

Amendment declared carried.

The Committee adjourned until Thursday, May 17, at 11 o'clock a.m.

DISCUSSIONS

THURSDAY, May 17, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The Committee proceeded to the consideration of Bill 83.

Mr. KELLNER proposed an amendment to Section 80, as follows:—

"That Section 80 be amended by adding after the word 'property,' in the third line thereof the following words:

"'Provided however, that no mortgage or hypothèque shall be taken, held or disposed of in respect to or be deemed to include any property which by any statutory enactment is exempt from seizure under writs of execution.'"

Amendment negatived on division.

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Mr. IRVINE: Mr. Good suggested that it might be possible for this to stand over until the bankers could get in touch with Mr. Kellner and attempt to devise some method or some form that would prevent the recurrence of the condition described in the letter read by Mr. Spencer. Is it possible to do that? I do not want to speak against the bankers, and if this needs fixing up I would like to have them help us fix it.

The CHAIRMAN: What good can the bankers do? We are all grown up individuals, we are responsible here, we are here as legislators, and we are supposed to know something about it.

Mr. IRVINE: Then all those who think this is not satisfactory know nothing? It seems a pity that we should pass this by without trying to fix it up, and I wondered if it could not stand over for a while. I am only asking the question.

The CHAIRMAN: Gentlemen, we will go on for a few moments longer, but I would like to ask the members of the Committee, between now and our next meeting, to think over the matter of the control of our meetings. I am sure that this morning's meeting cannot be satisfactory to the majority of the Committee, or to the country. A chairman has not, after all, very much power in controlling a Committee. He must do the very best he can in getting on with the legislation, giving everyone ample time to consider, but I am not sure that I can control this Committee or carry on the direction of Parliament under the powers that I now have, and it may be necessary to-morrow to ask you to establish certain rules whereby we can attempt to do the business before us.

Mr. SHAW: I suppose, Mr. Chairman, that you will give us lots of notice of the rules?

The CHAIRMAN: No, I will not give any rules at all; action will be necessary.

Mr. COOTE: Would the Chairman inform us where we can now find the rules governing the procedure in committee?

The CHAIRMAN: No, I was only suggesting that perhaps the existing rules are not sufficient to enable the Chairman to carry on business. I am asking the members of the Committee who desire to attend to the business to consider the possibility, to-morrow or the next day, of framing rules that will enable us to do our business.

Mr. IRVINE: Does that imply that we are going to have the use of closure in the Committee?

The CHAIRMAN: Not at all.

Mr. IRVINE: It means nothing to us.

The CHAIRMAN: You may dissent from it, but we can not have things go on as they have been going on this morning.

Mr. SPENCER: It seems to me that we have spent a lot of valuable time this morning.

The CHAIRMAN: There has been a lot of valuable time lost, too.

Mr. SPENCER: We have had a lot of valuable information, and in regard to the letter which I read, I do not want the Minister of Finance to go away with the idea that that is one particular case. That is just one out of thousands of cases, and if this discussion has done nothing else than to bring home to this Committee the fact that half of Canada is up in the air over this Bank Act, it will have done some good.

Mr. IRVINE: I move that we adjourn now, and meet to-morrow morning at 11 o'clock.

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The CHAIRMAN: There is an amendment to Section 84 which we had better proceed with.

Mr. HANSON: Proposed an amendment to Section 84; after discussion the amendment was allowed to stand.

The CHAIRMAN: The question is now whether we shall meet this afternoon or to-morrow morning.

Mr. LADNER: I move that we meet at 4 o'clock this afternoon.

The CHAIRMAN: It has been moved that we meet at 11 o'clock to-morrow morning, and it has been moved in amendment that we meet this afternoon at 4 o'clock.

Amendment declared carried.

The Committee adjourned until 4 p.m.

The Committee resumed at 4 p.m., Hon. A. K. Maclean in the Chair.

Mr. COOTE proposed an amendment to section 88, by striking out subsection 9 thereof and substituting therefor the following:

"The security taken under subsection 8, of this section may be taken by the bank upon the seed and the crop as in the next preceding subsection provided, but shall not be taken for an amount in excess of the loan or advance for seed grain, nor shall it be taken upon any other property real or personal whatsoever of the borrower, and shall be in the form set forth in Schedule D to this Act and in no other form, and no power of attorney in respect to such seed or crop shall be taken by the bank or any officer thereof."

Later, agreeing to the withdrawal of the words: "and in no other form,"

Amendment declared lost.

Mr. HANSON proposed an amendment to section 84, that instead of the amendment already proposed, the following should be substituted:

"By adding to section 84 the following words: 'Provided that such instrument evidencing such security is registered against the land upon which such timber stands, in the offices in which are recorded such rights or licenses.'"

Amendment declared carried.

Mr. KELLNER proposed an amendment to section 88, subsection 12, by adding after the word "stock" in the third line thereof the following words:

"Provided however that such security shall not include and shall be deemed not to include any livestock which is by any statutory enactment, at the date of the passing of this Act, exempt from seizure under writs of execution."

Amendment declared carried.

The Committee adjourned until Friday, May 18, 1923, at 11 o'clock a.m.

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DISCUSSIONS

FRIDAY, May 18, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Are there any notices of motions this morning?

Hon. Mr. FIELDING: There is one of the clauses in the Bill (Section 112) regarding special returns which I desire to amend. The object is to rather broaden the scope of the authority of the minister to call for special returns. In general, the purpose is the same as the clause in the Bill, but the language is a little more comprehensive. It does not change the purpose at all; it just gives the minister a little more power.

Mr. CARMICHAEL: I gave notice of a motion that the amendment of Mr. Speakman be considered this morning, but I understand there is an inclination to leave it over until Monday. If that is acceptable to the Committee, it is to me.

Mr. MITCHELL: Say Tuesday; Monday is rather an inconvenient day.

Hon. Mr. FIELDING: So many members go away for the week-end and do not get back until Tuesday.

The CHAIRMAN: We will take it up on Tuesday. Mr. Coote, have you fixed up your amendment to Section 88a?

Mr. COOTE: Mr. Ross has shown me a draft of a new subsection, but I have not had an opportunity of examining it closely. It does not achieve by any means the object we have in view, although it is a slight improvement on what is in the Act. I would like the section to stand so that I can consult with Mr. Ross further.

Section stands.

On Section 54.

The CHAIRMAN: Mr. Fielding moves that clauses (m) and (n) of subsection 2 be struck out.

Hon. Mr. FIELDING: These are items which if included in the statement, the banks thought would be disclosing unnecessarily their affairs. We had some discussion about it, and they rather satisfied us that the publication in this form was open to objection. There is a good deal to be said on both sides, but the banks thought that we were requiring them to disclose information that was not desirable.

Mr. WOODSWORTH: It would seem to me that both these items ought to be retained as they are here in the interests of the public. The banks are not private institutions in any sense of the word. They not only have a very important franchise, that of issuing currency, but in addition, they have been what must be conceded in practice, a virtual monopoly of the finances of the country. The profits that are made are profits that are made because of this monopoly, which is granted under this Act; and it seems to me that the public is not in a position to judge as to how far the banks are discharging their obligations without having a full statement of all their assets and liabilities. We are more and more requiring from other institutions a full statement as to profits, and undoubtedly we cannot have a full and accurate statement as to profits without including these items. An indefinite amount could be retained under this heading, and I think that if these two clauses are eliminated we would do away with the whole purpose of the Act which is that the public should have information concerning the exact standing of the banks.

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Mr. COOTE: Some one suggested a change as in amendment 21 substituting "Contingent reserves," and "Undistributed profits."

Hon. Mr. FIELDING: That was Mr. Clarkson's suggestion. The banks thought that the disclosure might alarm many people, and on reflection I thought there was a good deal in it. It is quite a debatable question, but the idea is that if the banks disclosed constant losses, thoughtful and careful financial men might know all about it, but the public at large might take an alarming view of the matter and the banks would get into trouble. If a bank has a bad loss, and that loss is disclosed to the public, it might cause unnecessary alarm to the public. That is the argument of the banks, and I think it has weight.

Mr. IRVINE: I think we are all very much interested in the banks in seeing that they are doing good work, and that they are perfectly sound. They are public institutions, and I think the public will be just as interested in seeing that the banks are sound as the banks themselves. For that reason, there is more danger of the public being alarmed if we strike these items out than if we keep them in. I believe we should guard against alarm.

Hon. Mr. FIELDING: It has not been in the Act in the past; it is a new condition that we accepted, but on consideration we thought it was open to the criticism that was offered.

Mr. IRVINE: Circumstances must have developed to cause the Minister of Finance to think of putting these in, and it is likely that other people are thinking about it also; and if they are struck out, after having been brought forward, it might cause alarm.

Mr. SPENCER: Do I understand that if this is struck out, neither the Finance Department nor the shareholders will know anything about the contingent reserve?

Hon. Mr. FIELDING: The Finance Department can call for a special return at any time, covering that or anything else.

Mr. WOODSWORTH: After hearing the Minister of Finance, I am still unconvinced. It appears to me that we are giving the appearance that the public are not to be trusted in matters of this kind. The general principle of democracy is that the final court of appeal is the public itself. I think there is a very general demand throughout the country that the affairs of the banks should be given publicity, and if this thing is brought up in this way and then is held over the impression might get abroad that the banks have certain matters which they are afraid to open to the light of day, and this might lead to a lack of confidence. The only possible reason why an institution should be granted the authority which the banks possess is that there should be the widest publicity as to the transaction it is carrying on.

The CHAIRMAN: There is some force in your remarks, but it must be admitted that a bank is different from a commercial institution. They exist only so long as the public have faith in them, and if a bank was unfortunate enough to lose a very substantial amount, their case would be different from that of a private commercial concern which might lose an equally great amount.

Mr. WOODSWORTH: It seems to me that that argument is *a fortiori* in favour of my position. Take for instance the Merchants Bank. One reason for the loss of public confidence in our banking system in Canada is the fact that such an occurrence as that associated with the Merchants Bank could take place without the people having any warning. I have comments here upon the Merchants Bank failure from leading papers both in Eastern Canada and Western Canada, all strongly calling upon the representatives of the people of Canada to see that some action is taken in regard to such matters. The fact is that a very serious state of things existed in the Merchants Bank, and it has shaken

public confidence very considerably in the clauses of the Act which permit that sort of thing to occur; and the only safeguard to the public is full publicity.

Mr. SPENCER: I have an article from the *Financial Times*, which I believe is a paper very friendly to the banks of this country, in which it says that the public want to know more about what is going on in connection with the banks. The people should be taken into the confidence of the banks more. It is the keeping of information from the people that is causing so much of the criticism that is being indulged in throughout the country at the present time.

Mr. GOOD: Mr. Edwards, if I remember correctly, made some comment on the suggested amendments of Mr. Clarkson. If he has any comment to make now, I would like to hear it.

Mr. EDWARDS: I considered Mr. Clarkson's suggestions, and I perceived that he misapprehended the purpose of those two items. I do not believe that Mr. Clarkson's suggestion as to its substituted phrases would work out. I would say this: Where an appropriation account is shown in the annual statement as a separate item on the liability side of the balance sheet, or where it is deducted from the asset to which it refers so as to show a net valuation, there can be no doubt at all that under the Act before the Committee now, a statement of the full appropriation would have to be made, and there could be no covering up or disguising it by reason of that phrase "appropriation" not being disclosed as a separate item in the statement. May I also suggest that the security of the debt rests upon the safety of the shareholders. It is the shareholders who are primarily concerned with the adequacy of the appropriations for bad debts and to see that the provisions of the Act are carried out; and if they do so, the public should not suffer. On the other hand, the disclosure of profits in a balance sheet issued to the public, if published in the newspapers might convey misapprehensions and the people who hold bank stocks might be affected and disturbed and might sacrifice some of the stocks they hold, or be otherwise prejudiced by the misapprehension which they were unable to correct due to an indiscreet statement of appropriation in the balance sheet. I am not representing the banks but I wish to say to the Committee that I believe that the public would lose nothing by the elimination of those two sub-paragraphs from the annual balance sheet.

Mr. GOOD: Your opinion is that we shall get substantially the information required in some other place.

Mr. EDWARDS: The minister has the actual right to get the information, study it, compare it, analyze, and act upon it in any way that may be deemed advisable.

Mr. GOOD: That is, he can do so if he wishes, but does the information come to him regularly?

Hon. Mr. FIELDING: He has the right to call for all sorts of returns.

Mr. GOOD: I would withdraw any objection I have to the cutting out of those two sections if I were sure that this information would be regularly received by some responsible party.

Mr. SPENCER: Following up the question that Mr. Good has just put, I am not concerned about the shareholders, I am concerned about the information being given to the minister who is responsible to Parliament.

Mr. KELLNER: There is another phase of the argument that I would like to present. The argument of the honourable minister is that if public confidence were destroyed, it would be detrimental to the banks. But probably if those matters were brought out in detail, it would restore public confidence. There are quite a number of people who are making a study of this banking system, and they find that there is a good deal of information which it is practically impossible

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for them to get. I believe that those two clauses would bring some of that information out. I think the minister will appreciate my statement if he goes back over some of the questions that have been on the order paper during the last two years, for he will find that they were almost invariably put there with the object of getting information that could not be obtained in any other way.

Some Honourable MEMBERS: Question.

Mr. IRVINE: Before you put the question, Mr. Chairman, I wish to make a very brief comment. First, I wish to say that although I am contending that these two clauses should stand, I do not want to be misunderstood that I am opposing the banks as such. I look upon the banks as being indispensable to our industrial life, as one of the most important institutions in the country, and I believe that anything that would hurt that institution would hurt all of us. Let that be understood, first of all. Next, I want to say that I do not see any possibility of panic. I cannot see where a danger to the bank would come from. That is only a statement; there has been no evidence to show that there would be even the possibility of a panic. To begin with, each bank has its reserves which it assures the public are sufficient to take care of any losses it might have. The next thing is, we are not on a gold basis, and there would not be any rush for gold supposing there were fears regarding any particular bank. In the next place, there could not be a loss, anyway there could not be an absolute loss. If some bank loses \$10,000 somebody else gets it; it is not lost at all. There are a lot of wrong ideas about this losing business. For the life of me I cannot see the possibility of a panic developing merely because the truth is told about the situation of any one bank or of all the banks. I reiterate that there is more danger of lack of confidence—and we are all agreed that confidence is absolutely essential to good business, to banks and public institutions generally—there is more danger of losing that confidence by covering things up. I am not saying that the banks are seeking to cover them up, but the public may think so, and I cannot see how it would hurt anybody to pass this.

Mr. WOODSWORTH: The minister has told us his reason for withdrawing those clauses, but he has not told us his reason for inserting his amendment. It seems to me that it is important to know why this should have been inserted as an amendment, and then apparently under pressure of the banks withdrawn.

Hon. Mr. FIELDING: We were trying to learn the lessons of experience, and we put in what I might call a guard, or check wherever the opportunity occurred; and this is one of the things that did occur to us. I suppose that if the bank had been aware of it sooner they would have raised the objection, but as they did not know anything about the Bill until it came before Parliament, it was not until they saw the proposed changes that they raised an objection. I think there is something in the objection which they have taken. It is all very well to talk about the public knowing these things. Let us be candid; the public would not know much about this even if they got the returns. But if a bank return disclosed a very heavy loss, and the fact was proclaimed to the public, the well-informed financial men might know that the bank was able to stand it; but if the idea got abroad that the bank was in hard luck, immediately people would begin to take their money out of the bank. Capital is very sensitive, and although panic is perhaps too strong a word to use, it might create a feeling of unrest and dissatisfaction that would put the bank in peril. That is the argument of the banks, and I think there is a good deal in it.

Mr. COOTE: It seems to me to be a very material item, the banks' statement showing the real strength of the bank. I do not know what these annual statements are for unless for the purpose of allowing the public to judge what is

a sound bank and what is not, and we should not have people depositing money in a bank that is in an unsound condition.

The CHAIRMAN: The motion is that Mr. Fielding's amendment be struck out.

Hon. Mr. FIELDING: I think that the objection which the banks have taken to these clauses is well taken, but I will take into consideration the suggestion as to the minister getting that information regularly, or only on demand.

Motion to strike out Clauses (m) and (n) carried.

The CHAIRMAN: Mr. Fielding moves that paragraph (k) of Section 54 be struck out and the following substituted.

"(k) call and short (not exceeding thirty days) loans in Canada on stocks, debentures and bonds and other securities of a sufficient marketable value to cover."

Hon. Mr. FIELDING: The one was very general, and the other specifies that they must be sufficient to cover the advances.

Amendment carried.

The CHAIRMAN: Mr. Fielding moves that paragraph (l) of Section 54 under the heading "Assets" in subsection 2 be struck out and the following substituted.

"(l) call and short (not exceeding thirty days) loans elsewhere than in Canada on stocks, debentures and bonds and other securities of a sufficient marketable value to cover."

Hon. Mr. FIELDING: The purpose is the same as in the other.

Amendment carried.

The CHAIRMAN: Mr. Fielding moves that paragraph (m) in subsection 2 be struck out and the following substituted.

"(m) other current loans and discounts in Canada (less rebate of interest), after making full provision for all bad and doubtful debts."

Amendment carried.

The CHAIRMAN: Mr. Fielding moves that paragraph (n) in subsection 2 be struck out and the following substituted.

"(n) other current loans and discounts elsewhere than in Canada (less rebate of interest), after making full provision for all bad and doubtful debts."

Amendment carried.

The CHAIRMAN: Mr. Fielding moves that paragraph (q) be struck out and a new paragraph (q) substituted. It changes the numbers.

Amendment carried.

On paragraph (r) of subsection 2, section 54.

Mr. Woodsworth moved an amendment that after the words "bank premises" the following be inserted "at not more than cost and at the assessed value."

The CHAIRMAN: Mr. Fielding moves that paragraph (r) be adopted, to which Mr. Woodsworth moves an amendment to insert after the word "cost" in the last line the words "and at the assessed value."

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Mr. KELLNER suggested the insertion of the words "fair market value."

Mr. GOOD: I move that the amendment stand over so that Mr. Woodworth and Mr. Edwards may get together.

Hon. Mr. FIELDING: We have had a good deal of discussion on it, and we should be able to vote on it.

On a vote being taken Mr. Woodworth's amendment negatived.

Mr. JELLIFF: Moved that after the word "cost" there be inserted the words "and at a fair market value."

On a vote being taken, the amendment was negatived.

Mr. COOTE: Moved the following amendment to subsection 3 of section 54.

"32. That Section 54, subsection 3 be amended by adding at the end thereof the following proviso:—

"Provided however that such statement shall include and show a list of the premises owned by the bank and their value as last assessed by the municipality in which the premises are severally situate."

Mr. COOTE: Would the Minister consider keeping in the words "fair market value?"

Hon. Mr. FIELDING: I do not attach much importance to the phrase "fair market value".

On a vote being taken, amendment declared lost.

The CHAIRMAN: Mr. Fielding moves the amendment to subsection 4 of Section 54 as set out on page 4 of the notices of motions of proposed amendments.

By adding a new subsection as follows:—

"4. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank's interest in the corporation; and the shareholders and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed the shareholders and auditors of such controlled corporations."

Mr. MARLER: I beg to move an amendment to that by striking out the words "the shareholders and" in the fifth last line and the words "shareholders and" in the third and second last lines, making the last paragraph of Mr. Fielding's amendment No. 8, page 4, of the third May, 1923, read as follows:—

"And the auditors of the bank shall, for any purposes within the purview of this Act be deemed the auditors of such controlled corporations."

Mr. EDWARDS: The purpose of the words "and the shareholders" in that section was to enable the shareholders of the bank to deal with the affairs of the controlled corporation to the same extent that they might deal with the affairs of the Bank at the annual meetings.

Amendments stand for further consideration.

The Committee adjourned until Monday, May 21, at 11 a.m.

DISCUSSIONS

MONDAY, May 21, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., the Chairman, Hon. A. K. Maclean, in the Chair.

Mr. CARMICHAEL presented a notice of motion that this Committee present a report forthwith to the House that the charters of the several banks enumerated be extended to the first day of July, 1924, and that this Committee recommend that a Royal Commission be appointed to make a thorough inquiry into the banking situation throughout Canada during the ensuing year.

On Section 80:

Mr. KELLNER moved that his amendment No. 34 be further amended to include only "Personal and movable property."

The CHAIRMAN: That will stand as a notice of motion.

On Section 18, Subsection 3:

Hon. Mr. FIELDING: There is an amendment to this subsection,—

"But no part of any such guarantee or pension fund whether contributed out of the funds of the bank or not, shall be invested in the shares of any bank."

The idea expressed in the amendment strikes me as a good one, and I should like to support it.

Mr. COOTE: It has been brought to my attention that the wording of the amendment, as proposed, is not just as specific as it might be. I move that the following words be substituted instead of the amendment as it reads on the printed list. "That subsection 3 be amended by striking out all the words after the word 'bank' in the fourth line, and substituting therefor the following: 'Such guarantee or pension fund, whether contributed out of the fund of the bank or not, shall be invested in securities in which a trustee under the Trustee Act of any province may invest.'"

Hon. Mr. FIELDING: We agree upon the object, and I think the wording might be left to the draughtsman, if there is any doubt about it.

Mr. COOTE: I would be quite willing to leave it in the hands of the Minister of Finance.

Hon. Mr. FIELDING: I think the amendment in its present form is alright.

Mr. COOTE: It was on the suggestion of some friends of pensioners that I brought forward this amendment, but I am not satisfied that we have it correctly worded. I would therefore suggest that it be allowed to stand. I am not doing this with the object of causing any delay; I simply want to be careful that I am not hurting those whom I am trying to protect. If it is allowed to stand, I shall take the best advice I can get and bring in an amendment that will meet with the approval of all the members of the Committee.

Hon. Mr. FIELDING: I have no objection.

Subsection 3 and amendment stand.

On section 28, subsection 4:

Hon. Mr. FIELDING moved,—

"That section 28, subsection 4, of Bill No. 83, be struck out and the following substituted therefor:—

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"4. A record shall be kept of the attendance at each meeting of directors. A summary thereof, prepared so as to show the total number of meetings held and the number attended by each director shall be sent to each shareholder with the notice of the annual meeting required by section twenty-one; and such summary may state the nature and extent of the services rendered by any director who, by reason of residing at a point remote from the chief office of the bank, has been unable to attend meetings of directors."

Hon. Mr. FIELDING: The object of the clause as it appears in the Bill is, I think, quite self evident. In recent discussions of bank affairs it has been made a matter of complaint that directors were, in some cases, mere figure-heads. It was alleged in connection with the Merchants Bank that the directors gave very lax attendance, and did not pay much attention to the affairs of the bank and so forth; and it was to meet that condition in some respects that this clause was put in. It simply required that a notice be sent to every shareholder prior to the annual meeting of the bank showing the record of attendances of the directors during the year. An objection was raised to that, which I confess, has some force. One gentleman, who himself is a bank director, stated that he regarded that as almost a reflection on the directors because it suggested that their non-attendance was wrong. It was pointed out that there might be cases where a director living at a distant point was really giving some useful service to the bank, and that simply to supply the shareholders with the statement that he did not attend to his duties would be a reflection upon him. I think there is something in it, and that is the reason for the amendment now submitted. That is, the shareholders may be informed that John Smith is not attending the meetings, but that John Smith is serving the bank out in Winnipeg or somewhere else. If you give that information I think you remove any reflection or imputation upon the directors. That is the object.

Mr. POWER: I think the clause as originally amended should stand.

Mr. GOOD: I would suggest that the words "has been unable" should be changed to "finds it inconvenient."

Mr. HUGHES: Might I suggest that a penalty be attached in the event of trouble arising that would cause loss to shareholders?

Hon. Mr. FIELDING's amendment declared carried.

Hon. Mr. FIELDING proposed an amendment to Section 54 as follows:—

"By adding a new subsection 4 as follows:—

"4. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank's interest in the corporation; and the shareholders and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed the shareholders and auditors of such controlled corporations."

Mr. MARLER proposed an amendment to Hon. Mr. Fielding's amendment, that all the words after the word "corporation" be struck out and the following substituted therefor:—

"and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed the auditors of such controlled corporation and the shareholders of the bank at every annual general meeting shall appoint such person to act as proxy for the bank at any and all meetings of such controlled corporation as they may see fit."

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Mr. MARLER's amendment declared carried.

The amendment, as passed, reads as follows:—

“By adding a new subsection 4 as follows:—

“4. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then there shall accompany the statement, a further statement or statements showing the assets and liabilities of each such corporation, and the value placed upon the bank's interest in the corporation; and the auditors of the bank shall, for any purposes within the purview of this Act, be deemed or the auditors of such controlled corporation, and the shareholders of the bank at every annual general meeting shall appoint such person to act as proxy for the bank at any and all meetings of such controlled corporations as they may see fit.”

Mr. SPENCER: I move that this Committee adjourn until 11 o'clock to-morrow morning.

Mr. SHAW: I will second the motion.

Mr. HANSON: I move we meet at 4 o'clock this afternoon.

The CHAIRMAN: I think I stated the other day that we would only meet this morning to take up non-contentious matters, and I have had notice that there is going to be a caucus to-morrow, so we will have to adjourn until Wednesday. Mr. Carmichael's motion will stand just the same.

Mr. SHAW: When may I bring up my motion with regard to the attendance here of the former officers of the Merchants Bank?

The CHAIRMAN: I did not know you made a motion; I know you brought the matter up.

Mr. SHAW: I gave notice, I think I saw it somewhere.

Hon. Mr. FIELDING: Bring it up on Wednesday.

The Committee adjourned until Wednesday, May 23, at 11 o'clock a.m.

DISCUSSIONS

WEDNESDAY, May 23, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m. Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: The first item on the order paper this morning is Mr. Carmichael's resolution.

“Resolved that this Committee, pursuant to the powers and duties to it referred by the House, to examine and report on Bill 83, do forthwith report the said Bill to the House with a recommendation that the charters of the several banks in schedule A enumerated be extended to the first day of July, 1924, the necessary amendment to the Bill for such purpose to be made, and with the further recommendation that the Government do appoint a Royal Commission to make a thorough inquiry during the ensuing year into the whole field of Banking, Finance and Credit, and report to the next Session of Parliament.”

Amongst the further amendments proposed is one by Mr. Woodsworth amending the same section, and the effect of which is to extend the charters of

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the banks for a period of five years. The effect of Mr. Carmichael's resolution is to extend them for one year. Mr. Speakman has also an amendment similar in effect to that of Mr. Carmichael. Now, I think we should consider these three together this morning. Mr. Carmichael's resolution and Mr. Speakman's motion might be voted upon at the same time. Mr. Woodsworth's amendment is somewhat different, but I think we might discuss his amendment also. Is that satisfactory to the Committee?

Mr. SHAW: My recollection is that Mr. Speakman's motion is different from Mr. Carmichael's, inasmuch as the latter proposes that a Commission be appointed to investigate banking and so forth, and therefore it cannot very well be voted on at the same time as the other.

The CHAIRMAN: We can consider them together, anyway.

Mr. COOTE: I have an amendment to propose. It requires that banks in the smaller towns remain open until four o'clock in the afternoon for business. Another amendment, of which I beg to give notice, requires additional information as to Schedule G.

The CHAIRMAN: Mr. Carmichael.

Mr. CARMICHAEL: Mr. Chairman, the resolution, as was mentioned, contains two chief points. The one point has already been debated by Mr. Speakman and Mr. Good, that is with regard to extending the charters of the banks for one year. This resolution contains an additional point, that of appointing a Royal Commission to make a thorough investigation during the ensuing year into the whole field of banking, finance and credit. I may say at the start that I am not merely expressing my own opinions in putting forward this resolution before the Committee. Last January the Saskatchewan Grain Growers held a convention in Saskatoon, at which possibly 1,500 Grain Growers were present. That convention represented, I might say, the population of Saskatchewan. The population of that province numbers some 757,000, of whom 80 per cent may be said to be rural population, and at the convention the following resolution was passed:—

“Resolved that this convention request the Dominion Government to refrain from granting new charters to the banks on the old terms, but simply extend them for one year, or until such time as the report of the Bank Commission asked for by the Canadian Council of Agriculture be laid on the table, should such commission be appointed.”

In addition to that, the same convention passed the following resolution:—

“The convention heartily endorses the resolution of the Canadian Council of Agriculture in connection with the appointment of a Royal Commission to investigate banking.”

Now, Mr. Chairman, these two resolutions express the views of agriculture not only in Saskatchewan but throughout Canada; because the Canadian Council of Agriculture represents agricultural interests in Canada, and these interests, I think, we are all agreed represent the majority of the population.

Mr. W. F. MACLEAN: Has the honourable gentleman the resolution of the Canadian Council of Agriculture?

Mr. CARMICHAEL: I have not the exact wording of the resolution, but it was to the effect that a Royal Commission be appointed to investigate banking during the ensuing year.

Mr. W. F. MACLEAN: Does that include the question of credits?

Mr. CARMICHAEL: I cannot give you the exact wording.

Hon. Mr. STEVENS: What was the reason for passing that?

Mr. SPENCER: I have a copy of the resolution here.

Mr. CARMICHAEL: I presume the reason was that an investigation might be made so that we would have definite evidence to submit to Parliament. The point that was discussed the other day in regard to allowing the matter to stand over for another year is one that I cannot say I am heartily in favour of, because I can see serious objection that might be taken to it from this viewpoint: There are a large number of depositors throughout the country, and if they felt that everything was being left in abeyance for one year, and not knowing what the final outcome might be at the end of the year, this might give rise to a certain amount of dissatisfaction, and a number of the small depositors throughout the country might have a feeling of unrest. I can easily see that that might be the case. But if a Commission is appointed to make a thorough investigation, I think that that unrest would not exist. I think that the public would have confidence in such a Commission. They would feel that Parliament was doing something definite, that the Commission was making a definite investigation and would bring down a definite report, and the public in general, would, I think, feel satisfied to wait a year to see what that report would be.

Now, I do not think that I need emphasize the need of an investigation along the line of rural credits. I think that according to the evidence submitted here, it is conceded by the Committee that there is a need throughout Canada for some system of rural credits. I am of the opinion that the greatest burden that western Canada is bearing to-day is the interest burden that is hanging around its neck. I am also of the opinion that western Canada cannot continue to carry that burden. A good many protests have been made; and I think that this Committee and this Parliament would do well to take heed of those continued protests.

The question of small banks was also raised in this Committee, and the Committee voted it down. But that does not settle the question. There is still a feeling in western Canada that if small banks were established they would help to solve some of our ills. The fact that the Committee refused to grant that proposal does not settle the question; but if a Commission were to make an investigation and report on the merits or demerits of the small bank system, we would have something definite to go upon at the next session of Parliament.

Then throughout western Canada, there is a growing feeling that a bank system on the same basis as the Australian Commonwealth Bank would be a great boon to agricultural interests in that part of the country. I know that in my own constituency I have listened to some very instructive debates on that point. The people of western Canada are very much alive to the banking business, and in my own constituency at least, a great many feel that if we established a commonwealth bank similar to that in Australia which could act in competition with the present banks, many of our ills would be solved.

Mr. MITCHELL: What is the system?

Mr. CARMICHAEL: The Australian Commonwealth Bank System.

Mr. MITCHELL: What is it?

Mr. CARMICHAEL: It would take a long time to describe it. Whether the opinion of the western people is well founded or not I am not going to say; but a Commission could investigate that matter and make a report upon which we could act. Then there is the matter of rates of interest. It has been stated here most emphatically by people in connection with the banks, that the banks cannot continue in western Canada if the rates are reduced to a maximum of 7½ per cent. Personally, I do not believe that statement. I may be wrong, and they may be right; they may be wrong, and I may be right. But the western

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people feel that they are called upon to pay unduly high rates of interest. The rates out there are 8, 9 and 10 per cent; a man has to be in good circumstances to get money at 8 per cent. The more common rate is 9 per cent, and a large number of farmers pay 10 per cent, while a number of financial corporations pay $7\frac{1}{2}$ and 8 per cent. I handled the financial affairs of a rural municipality for twelve years. We got our money for 7 per cent, but a year ago last January we were compelled to carry over a loan of \$25,000 and the bank immediately increased the rate of interest to $7\frac{1}{2}$ per cent, even although there were assets behind us amounting to \$3,600,000. They compelled us to pay one-half of one per cent more, which amounted to \$175. It was not a very big item, but there is that increase and there is the feeling among the people out there that they are being squeezed in the matter of interest. In order to decide that point, in order to determine just what the banks can pay, an investigating commission could collect evidence that would be authentic and evidence that we would regard as satisfactory.

Then there is the matter of the evidence which has been submitted to this Committee during the past few weeks. Are we going to leave that mass of evidence in the hands of members of this Committee for each one to read and review throughout the recess and thinking that when we come back next session, our opinions will converge towards one point. If we do, I think we will be mistaken. I think that some of us are not going to bother very much about the evidence, and we will come back next session with just as divergent views as we have this session. Nothing will be accomplished as to arriving at some definite proposal. But a Royal Commission could review the evidence, could sift the wheat from the chaff, and recommend what is good and useful in that evidence.

Then some mention has been made of the American Rural Credit scheme. Personally, I do not know anything about that, except the American farmers are getting their money for about one-half the rate of interest that western Canadian farmers are getting it to-day.

Mr. W. F. MACLEAN: Are they getting it by statute, or by the practice of the banks?

Mr. CARMICHAEL: They get it by the American Rural Credit scheme.

Mr. W. F. MACLEAN: Is there a law limiting the rate of interest?

Mr. CARMICHAEL: I am not prepared to give any information about that, because I do not know. Therefore, I see the great need of a Commission being appointed to investigate that system, not necessarily for the purpose of copying it, but of getting the good points in it that might be applied to a rural credit scheme in Canada.

Again, it seems to me there is a great need for a Commission at this time to investigate what seems to be a growing divergency of opinion between eastern Canada and western Canada. Now, Mr. Chairman, it will be agreed that that divergent view has been emphasized right in this Committee, where there seems to be a western opinion and an eastern opinion. Eastern opinions may be forced upon the west for a time, but I do not think that it is wise at the present time to attempt to do so. Personally, I deprecate anything that tends towards the division of the west and the east, but I must confess that there is a growing feeling in the west that the east is not fair to the west, and there is also a feeling possibly in the east that the west wants too much from the east. It seems to me that if we continue in this Committee to press the matter through, we are going to aggravate that condition. If we have a Commission that will investigate and bring down a report, we will stand a very good chance of not only retarding that tendency but possibly doing something to overcome it.

My own personal opinion in regard to our banking system is that it is good. I have had considerable business dealings with the banks, and I have always dealt with them with the feeling that we had a good system. I would be very sorry indeed to see our banking system overthrown and something else substituted. That is largely theoretical, and it is very problematical what the outcome would be. I am pressing for a Royal Commission, not with the view of displacing our banking system for something else; that is not the object at all. I would like to see a Commission appointed to investigate and bring down a report on which we could proceed at the next session of Parliament. The point has been raised that it would be a very dangerous thing to turn over the whole matter to a Royal Commission. It is agreed that we concede to the Government the power to appoint a Commission and the responsibility for the personnel of the Commission would rest with the Government. Personally, I am willing to grant that they would be fair, and that they would appoint a Commission that would be a fair one. My own opinion is that the banks do not need very much representation or any representation on that Commission. The agricultural interests need to be represented, and the business interests need to be represented; but so far as the banking interests are concerned, I think their viewpoint has been brought forth here in the evidence fairly well, and the Commission could get their viewpoint from the evidence.

Now, Mr. Chairman, I would strongly urge upon the Committee the advisability of adopting this resolution. If we feel we cannot, if we are prepared to stay here another month, we might get some amendments through. If we are prepared to stay still another month, we might get some more through, but I venture the prediction that if we are to stay here until Christmas time we would not get them all through.

An Hon. MEMBER: Is that a threat?

Mr. CARMICHAEL: Just a prediction.

Mr. BAXTER: I have not attended a great many sessions of this Committee. At the same time, perhaps, one can grasp without a very regular attendance some of the difficulties that have to be met. I fully appreciate the desire expressed by the last speaker for consideration. It seems to me that not only for the west, but for the east as well, and for any other division of the country, there will have to be intelligent consideration of their grievances and their needs. That is the office of Government. I think we want to co-operate along that line, but the method that is proposed, it seems to me, might stand a little bit more of consideration. Is it quite necessary to throw the whole banking system of Canada, which, I think, is generally conceded to be an excellent system, practically into the melting pot of some Commission on which banking is to have very little representation, if any at all? That does not appeal to me as quite fair or reasonable. I am neither a banker nor the advocate of bankers, but I would suggest that the evidence has rather developed this fact, that the banking system taken by itself is good, but that between it and what one might call the mortgage loan corporations, there is a gap left unfilled by any device, and that between those two bodies there should be something which would meet the agricultural needs of Canada, of the western provinces not more than the eastern provinces, because the farmer in the east, though he is an entirely different being from the grain grower in the west, has practically the same necessities in the way of credits. Now, I would like to suggest in all seriousness as a means of trying to solve this question, that the member who has just made his proposal should alter it a bit, so that our banking system can go on untrammelled, except by some necessary amendments, probably, that can be made, but that a Commission should be appointed to get at the really vital thing that the country seems to need, that is to devise some system of state aid or other-

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wise, by which the agricultural communities in all parts of the Dominion shall get the benefit of more extended and cheaper credits. That, I really think, is what we want to get at. Why hold up the banking system while we are investigating that? In all probability it is something that should not be added to the banking system, unless it may be by Government credits passed through the banks as agencies which will reach the communities and will give a credit at a lower rate than the banking rate. That might not be the solution at all. A man would be very venturesome to undertake to propose a solution. I think it is a matter for investigation, and I think a Royal Commission would be an excellent body to investigate. On that body agriculture should certainly be represented, but there should also be other elements of knowledge as to all banking systems, whether our own or any other. I really do not think that this is a case of antagonism; it is simply that there is a gap in our financial system and that we should have some device to fill it. Why not then limit the investigation to the precise thing that is required?

The CHAIRMAN: Mr. Woodsworth, do you desire to speak on your amendment, or on both, with the understanding, of course, that there will be separate votes.

Mr. WOODSWORTH: The two questions are somewhat different.

The CHAIRMAN: I am not pressing you to speak.

Mr. WOODSWORTH: I think that as this involves a different question, it might be settled first.

Mr. GOOD: Mr. Chairman, I do not know whether you will permit me to speak to-day, after the experience we had some few days ago; but I hope you will permit me to review the case that I presented then. I will do so in a very few words. I may say, Mr. Chairman, and gentlemen, that I am in entire sympathy with part of the resolution proposed by Mr. Carmichael. The resolution is naturally divided into two parts, and I think they ought to be submitted and voted on separately. I do not think that we ought to tie together any particular form of investigation and the desirability of postponing the final revision of the Bank Act until next year; but I must confess that in my own mind there is a need of postponement until next year. I am also entirely in favour of some kind of investigation in the interval between now and next year, but at this particular moment, I am not prepared, without further consideration, to endorse the idea of a Royal Commission, although I am not prepared to oppose it at the present moment. The particular form which the enquiry should take, is a matter which we ought to consider by itself.

Regarding the first point, that in the granting of the charters for one year with the view of getting time to look into this very important matter and knowing what to do better than we know at the present time, I would just briefly submit to the Committee the main points which I developed at some length on a previous occasion. First, the extreme importance of the question of the control of finance and credit at the present time, and the critical situation in which the world is placed. Then, in connection with that, I want to submit to the Committee again that it has been absolutely established here to the satisfaction of anybody who has eyes to read and a mind to think, that there is a very close and intimate connection between the control of our financial system and the industrial unrest and disturbance that we see throughout the world at the present time; and that any solution of these troubles that we are facing will be, and must be, arrived at very largely by some remedial action in connection with the control of credits.

I also submitted to the Committee the other day, that there were a great many members of the Committee who had been busy with other Committees, and who had not had the time to read and digest the evidence. Speaking for

myself, I desire to say that I want more time to consider this matter, to study it between now and next year in order that I may make up my mind as to what ought to be done. We cannot lose anything by doing that, and we may gain a great deal.

Then I also called attention to the fact that this year the investigation before this Committee has been considerably wider than it was ten years ago, and that we had not put in as much time, or called as many witnesses, or hardly any more, in connection with the whole investigation than we called ten years ago. I also pointed out that the matter had been postponed on the previous occasion from one year to the next year, and from that year to the next year; and I think that Mr. Fielding himself can be quoted as advocating postponement on the ground that more time was required to discuss the matter and take those important questions more fully into consideration.

I also called attention, as Mr. Carmichael has done, to the tremendous importance at the present time of taking into consideration the question of rural credits and the fact that we do not just know how any necessary reform or improvements in the legislation in that direction are going to be linked up with the present banking system in Canada. I think the banks ought to be very willing, particularly in the troublous conditions that face us at the present time, to come and sit down with us in a quiet and sympathetic way to discuss what is going to be done to meet the situation. I am perfectly prepared to adopt that attitude at any time. I do not want to quarrel with anybody, but if there is any effort to stifle discussion of the matter, I am going to stand firm for what I think is the right thing to do.

Then we have the War Finance Act which has overridden the Bank Act, and which continues to override it in a number of particulars. We want to see how we can make use of it, if it can be extended as Mr. Ladner suggested, with the Treasury Board operating under The War Finance Act. That is a big question that we have not yet considered in this Committee, and I would like to consider it. I think we can relate it very properly to any proposed system of rural credits.

I also called attention to the unusual interest which has been taken in this matter by the Canadian people. I referred to the action of the Alberta legislature, to that of the Manitoba Government, and Mr. Carmichael has called attention to the action of the Saskatchewan Grain Growers' Association. We have also a resolution of the Maritime United Farmers, and we have a number of private parties evincing a keen interest in this matter, and all unanimously, I think, asking that the question be put over to give them more time for consideration. In that connection, I called attention to the great volume of correspondence that the Progressives had had upon the subject in response to a questionnaire sent out some two months ago, I think.

The next point I wish to mention in passing is that if we are going to do anything in the direction of stabilizing the purchasing power of money, which seems to me one of the most important things we can possibly consider, we have to have either control over or co-operation with the banks; and we ought to get together on this problem. I think the banks are equally interested with the rest of us in trying to find some solution, and if the matter is hurried through, we will have no time to go into it and secure co-operation between the public represented here and the bankers. I mentioned in that connection that in the United States legislation is already being considered looking towards the stabilization of the purchasing power of money. There have been a number of hearings on the Goldsborough Bill, which is under consideration down there. Reference has been made by Mr. Carmichael this morning to the rural credit systems in the Australasian countries, and particularly to the Australian Com-

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monwealth Bank. We have not any information on these points. We have not had time to get information and we ought to have it to see whether or not such a system is desirable to meet the situation in Canada.

We were also promised that we should have Doctor McGibbon here to give us some information on the Alberta situation which, no doubt, has caused a good deal of unrest. We have not had him here, and we have not had any report from him. We do not know anything about this matter at the present time.

Then we have not looked into the Merchants Bank business. There is a very strong feeling throughout Canada that that matter should be investigated before we deal with some of the amendments to the Bank Act that have yet to be considered. Personally, I feel that we ought to have some of those men connected with the Merchants Bank here before us, so that we can question them in regard to a number of matters.

In conclusion, Mr. Chairman, we are interested in a number of amendments that have yet to be considered, and as Mr. Carmichael pointed out, it is going to take a long time to pass them. At a previous meeting of the Committee the Minister of Finance stated that if those matters stood over, we would have to go over all the ground again. I do not want to be disrespectful, but there is absolutely nothing in that. It would not be at all necessary to go over the ground again. We could start where we left off; we could take more time. We have all the evidence that has been submitted, and we want more evidence. We want to find out something about the Federal Reserve Bank in the United States, and we can gather all the evidence we need. I submit that the sensible thing to do is to let the matter stand, and take it up again next year. Then we will be in a very much better position and have more time to discuss the whole question intelligently. I do submit that the sensible thing to do, in all the circumstances, is to give the banks an extension for one year, and try to come together to study the problems in the interval; and then next year, we can do something that will really help the country. If we proceed to jam the thing through this year. I do not know under what pressure; there is no doubt that a good many mistakes will be made, and I venture the prediction that greater uneasiness will be felt if such a procedure is resorted to than there will be if we simply let the matter stand over for a year and proceed in a sensible, common-sense way to finish the work next year that we have now started.

Mr. W. F. MACLEAN: May I ask Mr. McMaster, who is Chairman of the Committee on Agricultural conditions, which has been considering the question of rural credits, whether his Committee is prepared to report, and if so, when they will report on that question. After hearing from him on that point, I would like to hear from the Minister of Finance whether Mr. Baxter's suggestion has made an impression, that there should be a Commission to consider the question of credits, independently of the Bank Act. Perhaps that would clear the air.

Mr. McMMASTER: Mr. Chairman, we have been studying in our Committee on Agricultural conditions, the question of rural credits along with a great number of other questions concerning rural life in Canada. We have had a very wide and extended investigation, and have worked very hard, morning noon and night. We have collected a mass of information, and it is now our duty to endeavour to digest it. It will take us some time to digest the information in order to be able to submit a report of value to the country. In regard to the question of rural credits, we had before us the heads of what are practically farm loan boards, though they bear different names in the different provinces of Saskatchewan, Manitoba and Ontario, to explain to the Committee the different systems in vogue in each one of these three provinces. Then, as Chairman of the Committee. I have received from different sources, a mass of

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information about rural credits. I confess that although I have worked on the Committee on Agricultural conditions as hard as I have worked at anything in my life, it will take me weeks to study the question in order to be able to draft a report to submit to the House. It was decided the other day that our investigation into the matter be closed, so far as the hearing of witnesses are concerned, but I have had representations made to me by a gentleman who is associated with an association of loan companies, and who endeavoured to point out to me that loan companies who make a business of loaning on farm property might be pushed from the field by a Government institution. The whole question is one of great difficulty, and I must say, if my opinion is worth anything—and I speak with all reserve, because I have not been able to follow closely the proceedings of this Committee—that I do think it would be of great value to have the revision of the Bank Act laid over. I am not at all sure whether it is necessary to create what is termed short term loans; I am not at all sure. But if those short term loans for rural purposes, running say from nine months to two years, cannot be handled by the banks, it was pointed out in our Committee that in certain parts of Canada the banks do now supply this form of rural credit—

Mr. W. F. MACLEAN: That is for stocker.

Mr. McMASTER: I would imagine that the credit was divided into three parts: first, ordinary commercial credits, which are supposed to run along for terms of not more than three months and are cleaned up at the end of three months—I think that rule is honoured more in the breach than in the observance; then we have the credits given to producers such as stockmen, which would run over a term of six or even eighteen months; and then there is the mortgage credit, the ordinary five-year farm loan, or a loan with the amortization clause, which extends twenty, twenty-five and even thirty years, and sometimes longer. Now, by an arrangement made between the Chairman of this Committee and myself, it was understood that we should endeavour to hold an investigation into rural credits. We have held that investigation, so far as it goes, but I for one am not prepared to-day to give an opinion as to the advisability of rural credits, though I am impressed with the probable advisability of them. That is to say, they are advisable, but whether they should be supplied by a Government institution, or by one formed by the Government, or whether private institutions should be allowed to work out a solution is something upon which I do not feel called to declare myself until I have had a much more careful study of the situation. But I do say this, and I desire to submit it to the Committee, that a good deal of the evidence shows that the advantages of having this matter laid over for further consideration outweigh any possible disadvantage that there might be by not doing so. What can be the objection to allowing this matter to remain over a year? I am not exaggerating when I say that the information gathered by the Committee on Agricultural conditions on the question of rural life in Canada might easily occupy a body of men for months in studying it. I consider that the question of credit is of enormous importance. I am not one of those who think that our banking system is bad from top to bottom; not at all. I think there are many splendid features in it, but I do not belong to the perfectionist school like one gentleman who stated, as I read it in a newspaper or somewhere else, that we had the most perfect bank system in the world. When people claim perfection, I am always very doubtful about the wisdom of their claim. Let the matter of the banks stand over for a year—we have had precedents for doing that—and then we might, in the spirit of co-operation, endeavour to get together on the information that is available and on the information which may be obtained later, not to go over the ground again except on such parts as have not been made clear, but to continue our study of the question in order to get

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legislation that will be fair to everybody, fair to the borrower and fair to the lender; for unless we make the situation secure for the lender, in the long run the borrower will pay for it. There is no question about that. There should be no divergence of interest between the lender and the borrower. It is in the hope of getting together, of preserving what is good in our present system, of eliminating what is not so good in our system, of devising new systems in fields of credit not at present occupied—it is in that view that I would commend—and I speak with great modesty because I have not been following the proceedings of this Committee very closely—laying the matter over for another year.

Mr. W. F. MACLEAN: What does the honourable gentleman think of Mr. Carmichael's suggestion as to a Commission?

Mr. McMASTER: I would not be prepared to say offhand. It seems to me that it is primarily a question for the Members of this House to study. If the Commission brings in a report, the evidence on which it based its report and findings, and the report itself will have to be studied and digested by this Committee or by Members of the House. It seems to me that the investigation might do some good. In connection with the question of rural credits, I was sent the other day by the President of the Alberta University, Doctor Tory, his report as a member of a commission which was appointed from every State in the American Union, and from several Canadian provinces and which toured Europe a few years ago gathering information relating to the question of rural credits. An enormous amount of information was gathered, and it seems to me that the opportunity should be given to this Committee to study the information. That information may be co-related with the information that has been brought out concerning the operation of farm loan boards in the different provinces. For instance, we have had a report from, and an examination of, the Chairman of the Board in Manitoba; we had before us, and we have a report from Professor Jackman of Toronto University criticising the other report. There are two sides to this question, as there are to other questions, and I would think it would be a great mistake for either side to take up an extreme attitude in the matter. If the Bill is forced through, there will be dissatisfaction. Could it not be reasonably agreed to let the matter stand over for a year in order to study the information that is available and that may be further obtained on this question?

Mr. MITCHELL: As regards what Mr. McMaster has said as to rural credits, personally, I have a great deal of sympathy with the idea that something should be done to fill the gap, as Mr. Baxter put it, between the ordinary loan company and the banks. But if I understand Mr. McMaster's argument, it is that because a certain question of rural credits was referred to the Committee over which he presided, and because that Committee is not ready to report on that question, he wants us to defer passing the Bank Act until next year. I can see no reason or logic in that argument. To my mind, if Mr. McMaster with his Committee is ready next year to recommend something concerning rural credits, there will be no reason, if I understand the procedure of Parliament, why the recommendation should not be carried into effect. If it were decided to connect it up with the Bank Act, which I do not believe can be done, but if it were decided to link it up with the Bank Act surely we could amend the Bank Act as was done in 1916 and several times since the last general revision took place. We have studied this question of the Bank Act, and so far as it is concerned, I have heard very few complaints or arguments of such a serious nature as should prevent us from dealing with it. We talk about a Commission, and about investigation, but we have sat here week after week studying this question thoroughly. This Committee has given every consideration to

every representation; every witness whom it was suggested should be called was called—

Mr. GOOD: I do not think that is true.

Mr. MITCHELL: I was Chairman of the sub-committee, and every witness whose name was suggested was called.

An Hon. MEMBER: What about Mr. Baker?

Mr. MITCHELL: I have forgotten about Mr. Baker, but I say advisedly that every witness whose name was suggested was called. I was absolutely open on this question. I opposed the calling of one witness, but the majority of the sub-committee were in favour of calling him, and he was called. I repeat that we have examined every witness whose name was suggested. We had two questions referred to this Committee, Mr. Irvin's resolution, and the revision of the Bank Act. If there is anything to be recommended as regards Mr. Irvine's resolution we will consider it; but so far as the Bank Act is concerned, I submit that we have given it every consideration, and that we need no Commission. This Committee is here for the purpose of deciding that question, and we should put the Bill through this year in the interests of the business of this country, and in the interests of the credit of Canada, because in my judgment, —I may be wrong in this—in my judgment, if we put this Act over it will be taken by the business men of this country and by foreign countries to mean that we are considering systems that have been suggested here; and with all due respect to those suggestions, I say that if the business world came to the conclusion that we were considering those suggestions seriously after the little study we have given to them, it would be a blow to the credit not only of the banking system, but of Canada generally.

Mr. BIRD: I have been listening for a valid reason for pushing the revision of the Bank Act through this year, and so far, I have failed to hear anything approaching a valid reason. On the other hand, I think everybody must recognize that there are a good many valid reasons why we should postpone it for at least one year. I will not recount what Mr. Good has already said about the business of the session, but we have had a very busy session, and a good many important questions have yet to be decided; a good many important Committees are still sitting and have to report, and their work is more urgent than the work we are dealing with here. On the Bill itself, we have a large number of amendments, and some of them are very important amendments. I might cite particularly the inquiry that ought to be made into the matter of bank inspection, with special reference to the Merchants Bank case. Ever since that case came before the public, I have carefully clipped from the daily newspapers all references to it, and the pronouncements of the daily papers, in reference to the Merchants Bank case, and the action that was taken in the courts are very serious and indicate that a good deal of dissatisfaction was created in the minds of the people of Canada. That being so, it rests with this Committee to carry that inquiry to the last possible degree. Before this Committee finishes its business with regard to the revision of the Bank Act that matter ought to be thoroughly discussed, and that in itself should provide sufficient work for one session alone. I think the last speaker gave the impression that this was only a matter of farm credits. That looms pretty largely in our minds as representatives of the farming interests, but the question is not altogether that. Like most speakers, I think we have a general faith in the Bank Act of Canada, that is for what it is, for what it stands for. But so far as a great section of this country is concerned, there is also a feeling that it does not stand for very much, that it does not meet their needs, and does not begin to meet their needs. The question of rural credits has been prominently brought before the people of all

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countries that are largely agricultural. In some countries it has already been solved in a very satisfactory manner, but I think that question is so recent, and so large in extent, and so varied in its bearings, that we ought not hastily to commit ourselves to passing this revision of the Bank Act. It has been suggested that rural credits have very little to do with the Bank Act. That view may be taken, but we in this group do not feel like letting the Bank Act go through—and I do not use this language in a sinister sense. The Bank Act itself is our only weapon for getting something like reform in the granting of rural credits, and the whole question of rural credits is associated with the subject of banking. Whatever decision this House comes to in regard to rural credits will have more or less close relation to our banking system, and we do not want to prejudice our whole case by allowing the present Bank Act to go through without sufficient scrutiny. I would like to say that there is nothing sinister in our request to have it put over for one year. It may be thought that there is some radical virus in the blood of the farming representatives on this Committee, but I think it would be well for the other members of the Committee and of the House to disabuse their minds of that idea. We do not want to turn things upside down; we are only asking for what is reasonable, and for what is universally thought to be reasonable. I think that a little further thought given to this matter and to our demand would disabuse the minds of certain people of that idea. We are out for what is recognized all over the world as being necessary for the future prosperity of agriculture.

I notice that even in Great Britain, that conservative country, in regard to financial matters, the farmers are asking for the same things that we are asking for long term and universal credits. These things are being universally demanded by farmers because they express a fundamental need.

In making this request we have all kinds of precedents. I am not quoting the Minister of Finance to put him in any unfavourable light, but when the bank revision was up thirteen years ago, in the session of 1909-10, the Opposition brought great pressure to bear upon the Minister of Finance to put the Bank Act through in that year.

The CHAIRMAN: I am interested to know what you mean by quoting Mr. Fielding, because you and some one else used the minister's name, when, as a matter of fact, he was not in Parliament in 1913, and the revision before that was in 1902. Mr. Carmichael also referred to Mr. Fielding as having taken that position in 1913, when Mr. Fielding was not in Parliament.

Hon. Mr. FIELDING: What is Mr. Bird quoting from now?

Mr. BIRD: My reference is in Hansard.

Hon. Mr. FIELDING: To something that I said?

Mr. BIRD: Yes.

Hon. Mr. FIELDING: At what time?

Mr. BIRD: I said thirteen years ago.

The CHAIRMAN: Tell us the year in which this statement was made.

Mr. BIRD: I said thirteen years ago, in the session of 1909-10. In that session the Opposition pressed upon the Minister of Finance to put through the revision of the Bank Act. I think that on three or four occasions the Finance Minister was asked questions in that regard, but for various reasons it was put off from time to time although the Bank Act was in good shape at the beginning of the session and ready to be proceeded with. Finally, it was put off altogether for that session on the ground I think that there was too much other business to be dealt with.

Hon. Mr. FIELDING: Give us the year and the page in Hansard.

Mr. BIRD: I said that was the session of 1909.

Hon. Mr. FIELDING: 1909 or 1910?

Mr. BIRD: On page 2062 of Hansard, in that session, in answer to Hon. Mr. Borden, Mr. Fielding said the matter was well advanced.

Hon. Mr. FIELDING: What was the question?

Mr. BIRD: My presentation of this point is open to any one to dispute, but I did not anticipate that I was going to be held down to this. In the early part of the session of 1909-1910 Mr. Borden inquired about this, and the Finance Minister said the matter was well advanced and it was hoped to bring in a bill early in the session.

Mr. MITCHELL: What page of Hansard was that?

Mr. BIRD: 2062. On page 2950 the Finance Minister, in reply to an inquiry, said it was contemplated to provide a bank act during the present session. It was put off from time to time with the thought that it would be brought forward that session and finally it was dispensed with on the plea that there was too much other business. In the next year the same story can be told. The Bank Act was practically drawn up; apparently it was in shape to be proceeded with that year, but on two occasions the Finance Minister put off the matter and finally it was dispensed with altogether for that year on the plea that there was too much other business. The Finance Minister said, "a little further time will not be to the disadvantage of any interest concerned. I do not think any great public interests will suffer," and his only plea for putting it off was that there was other important business to be considered and the session was drawing near to a close and it would be impossible to discuss a Bank Act of that kind.

Mr. SHAW: Is that some other Finance Minister you are speaking about, or is it Mr. Fielding?

Mr. BIRD: It was Mr. Fielding. The following year there was a change of Government, and the same dilatory process ensued, this time under a Conservative Finance Minister. Mr. Lemieux asked if the Conservative Government were bringing forward the Bank Act for revision, but it was put off that session and not brought up until the next session.

Mr. W. F. MACLEAN: Who was the Finance Minister then?

Mr. BIRD: Sir Thomas White, I suppose. I may not have presented that to you exactly, but the substance of what I say is absolutely correct; and there we have a precedent of the right kind. But I might say that in the next session, Mr. Fielding, dealing with this proposition said it was very urgent that the Bank Act should be gone forward with. It was necessary that the Bank Act should be gone forward with and have a thorough discussion, but the Finance Minister did not take it in that way and postponed it until the following year. I want to add further that in my opinion if the Finance Minister can see his way clear to postpone this until next year, that he will have public opinion behind him. I can only speak of the West, of my own district, and I say that that is the position of the average western man, that this ought to be postponed for another year. If it is not postponed the public will want to know why it was rushed through, and it will be difficult to give the public any satisfactory reason why it was rushed through, especially when such a strong protest was made, when such a strong, reasonable and satisfactory claim was made for its postponement. Something was said about certain statements being made in the nature of a threat, but I do not think that that is in the mind of any of us because I do not think we are in position to block this, even if we wanted to

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We do not want to adopt that heckling spirit, but we feel this thing so strongly and we believe that public opinion is so much behind us, that we are prepared to put up a pretty strong case, not only in the Committee, but in the House, that this be postponed for another year.

Mr. WOODSWORTH: With regard to this resolution of Mr. Carmichael there are two or three points on which I should like to place my position before you. Mr. Mitchell, referring to Mr. Irvine's resolution, said that possibly the public might think that this Committee was apt to adopt some of the proposals that had been made in connection with the investigation or the discussion of Mr. Irvine's resolution. It does seem to me that the resolution of Mr. Irvine and the discussion and investigation that took place ought not to be regarded as a purely academic matter. We are not here in this Committee simply for purposes of academic discussion. Surely it has been in the minds of a good many members of this Committee that in investigating the basis and function and control of commercial credit, we were trying to get at something that was worth while, something on which action should be taken, and it seems to me that a definite finding should be arrived at in this Committee with regard to the facts.

The CHAIRMAN: This Committee's work is not through.

Mr. WOODSWORTH: It seems to me this Committee ought to bring in a definite finding with regard to the facts that have been brought forward in the course of this investigation. What is the use of trying to incorporate these facts into the Bank Act? I cannot see how you can separate the two inquiries. Mr. Irvine's resolution ought to be decided on first, in order to know where we are at, and what principles we are to decide, the principles of the Bank Act. With regard to Mr. Carmichael's suggestion of a Royal Commission, I would be inclined to doubt the wisdom of that. Mr. Carmichael suggests a fair Commission ought to be appointed. Then he proceeds to state they ought to have a large representation of agriculturists on it. According to Mr. Carmichael, there would have to be a large number of farmers on the Commission to constitute a fair Commission. It is not a case of fairness; it is fundamentally a difference of viewpoint, and a difference of principles that is involved. The bankers start out from one set of premises, the farmers from another set of premises, and I daresay our labour people would start out from another set of premises, and under our modern system of Government, the majority would have to decide. So after the Commission had done its work, the matter would have to be decided in the body that represents or is supposed to represent the people at large, so that it would seem as though we can decide this matter and that we will have to ultimately decide it in Committee. I do not believe that we are ready at the moment to carefully revise the Act, as it has been presented to us. It has been suggested that rural credit is a matter apart. As was pointed out the other day, supposing we did adopt a system of rural credits this year, next year, after all, the administration of the rural credit scheme would have to be carried on through the banks, which would mean a decided modification of the Act. There is something deeper than that which has not been mentioned, and that is, that to-day the big banks have virtually a monopoly of credit. I cannot see where the credit is going to come from unless you virtually allow these rural banks to take deposits and become more or less provincial banks. The working out of the rural credit scheme goes right back to the basis of credit and whether it is the amounts the various depositors put in the banks, or the credits they bring to the banks, when they seek a line of credit in any case, it involves the whole question and definitely affects the Bank Act. There is another question, which is the weaknesses of the Bank Act, as shown by the Merchant's Bank incident. I happen to have in my hand

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a symposium of some press reports published in my own city, Winnipeg, in which there is shown to be a strong public demand for careful revision following the Merchant's Bank incident. There are a great many passages from Winnipeg, Regina, Calgary, Lethbridge and so on; also from eastern papers, such as the old *Montreal Witness*:—"the law, as it stands, seems to be a farce and the public audits a farce and the responsibility of managers and directors a farce." The *Toronto Globe* says:—

"Without commenting on this particular sentence, we are faced with the extraordinary situation that a bank can be wrecked by the grossest mismanagement, to say the least, and nobody is to be blamed. Clearly, if the blame cannot be laid at the doors of any individual, the law must be at fault. Surely banking is not to be regarded as a business in which such collapses as that of the Merchants are to be regarded as ordinary and expected incidents.

"The more reasonable conclusion is that the law is defective and that the shareholders should be protected by a better system of inspection. Bankers, on the whole, are inclined to resist Government inspection as futile and likely to lead to a false sense of security. Then, what do they propose as a remedy? The public are not clear as to what should be done. They are dissatisfied and bewildered. They look for light and leading from those bankers and leaders in business, and so far none is forthcoming."

The *Financial Post* presents the viewpoint of a great many leading business men of this country, when it holds:—

"Throwing the onus on the personal element in management and directorate—justified though it is in so large a measure—will fail to satisfy a widespread public disquiet, and the determination that the looting of a big and prosperous bank must either be punishable and punished under the Act, or the Act must be radically amended so that in future the guilty cannot repeat such an offence with impunity."

For these reasons and others which have been brought forward by other speakers to-day and on previous occasions, I will have to vote for a further delay of this Bank Act. There are a large number of most important amendments. Why should we hasten the matter? There is this proposition to have mutual banks or co-operative banks. The proposition is that we can have banks organized with a smaller amount of capital—I think as the Chairman himself stated, if I might refer to the debate of last night, we are in a period of unrest, world-wide unrest, where conditions are rapidly changing. We in Canada are an integral part of this great world organization to-day, and it would seem as if we ought not to hasten or try in any sense to make permanent, certain regulations which may need to be scrapped to-morrow. I know the same thing may be said and applied a year hence, but after the careful discussion which has gone on in this Committee—I think there has been a great deal of sincerity on the part of the people taking part in the discussion—and after this has gone back to the public it seems to me we would be in a better position to discuss the situation. One member said the other day that the public might become restless. I am not afraid of a public verdict. If we believe in responsible Government, why should not this thing go right back to our constituents and we can then see what their opinions really are.

Mr. W. F. MACLEAN: We have had before us all this discussion and it is a very reasonable discussion so far, that some provision must be made for the development of a system of rural credits or mortgage loans, based partly on stock, partly on land, and partly on grain, and the United States Govern-

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ment has passed this Bill; a copy of it has been sent to all the members. In dealing with this question of rural credits, provision is made to bring in the National Reserve Bank system, and mainly for this reason, that the money for the purposes of rural credit must be got by the issue of debentures; and in the legislation creating this new system of credits there is provision for the issuing of debentures and for associating the National Reserve Banks, and the Secretary of the Treasury of the United States and the Comptroller of Currency of the United States—they are all brought into the proposal in order to get low money, to make the interest on debentures low. If you get low money on your debentures, you can correspondingly give low money to farmers who will avail themselves of the privilege, and if that is the case we have not got the National Reserve Bank system in the country, although we have a skeleton of it—you have it in two ways, by the discounts we established some years ago with the other banks, and the National Finance Corporation. That is also included in the legislation in the United States. The good principles that were supposed to be for war purposes, were of such significance that they have been extended both in the United States and in Canada. That is the National Finance Corporation. Of course the Federal Reserve Bank system, the member banks of the Federal Bank system, the Secretary of the Treasury in the Government, the Comptroller of Currency in the country, and all other corporations can be brought in with it with a view of changing the credit of the country. Low interest debentures, to get the money from the public, to sell the debentures to the public,—all these things combined have been brought in. You cannot deal with this question of rural credits without taking advantage of our present Bank Act, our currency laws, and the credit of the Government, if we have as we will have, a National Reserve Bank system in this country. I do not for the life of me see why it would not be in the interest of the public to have the bill go over for another session, to give those who have attended this Committee and other Committees an opportunity of threshing out this question and getting the advice necessary. I am more or less in sympathy with Mr. Carmichael in that I believe that a Commission of three very competent men would ascertain the facts on which Parliament should move, under the direction of the Minister of Finance, to this end. No headway will be made by rushing it through, and that being my opinion, I agree with the members who have already spoken. I must pay this testimony, that so far it has been a very important discussion. We have a good banking system in this country. It is a good system; it can be made better. Some men in public say, "Oh, this National Reserve Bank system was a curse to the United States." That is what the bankers said when it was established, but every banker to-day is in favour of it, and my contention is that the bankers in Canada will accept this principle of a National Reserve Bank system. I am quite sure there are ex-Ministers of Finance in this country who will say the same thing. They have gone through it. We have responsible Government in this country. You can have all those proposals and they can be considered and I would be prepared to leave the question to the Government to deal with, if they bring in the bill. Under our system of responsible Government, we could have it come from the Government themselves, and if we do not make it right there is a cure, which is a general election. There is the vote in the House, and the responsibility is on somebody. I do not care how it is dealt with, as long as it is dealt with, but the different phases have to be dealt with together and the Bank Act has to be broadened.

MISS MACPHERSON: I am in favour of having the present revision of the Bank Act stand over for a year. I believe the banks would disarm some little suspicion; I believe they would restore confidence in themselves by letting it stand

over, because their functions can bear scrutiny. It is claimed by some of the representatives of the banks that they have a perfect system. Then they should not be afraid to have that system looked into with care. I do not wish to cover the points that have already been covered, but the fact is that agriculture is in a worse state than it has ever been in before. I am tired of hearing about Western Canada when we speak of agriculture. Eastern Canada, Ontario, the Maritimes and Quebec agriculture is in a state from which it cannot be brought out. Canada has not much hope for the future. It is true, I think, that rural credits or extension of credit to agriculture is bound up with, and cannot be separated from the banks. It is not unreasonable. We are not asking a radical thing; we are asking only a sane, justifiable thing, that it be held over for a year. No one need be afraid. If the Government are going to shove this thing through this year, in spite of strenuous opposition, that will create suspicion in the minds of the people more than anything else. When did this rush about getting the Bank Act through this year begin? If it is to be put through in order to save Canada from the terrible sea or ocean of despair, why did we not start to sit here before the Easter Recess? If it is going through this year, why did we not make an earlier start? Then possibly we would have been able to have gone through the whole of the revision this year.

Mr. LADNER: Is it the intention of the Government to bring down any amendments to the Finance Act?

Hon. Mr. FIELDING: The Bill respecting the Finance Act will be brought down at a later stage. I think the Finance Act should be continued. It may have to be qualified or amended. I will say the Bill respecting the Finance Act will come later. I do not think any of us would likely bring forward any new views about it. We have had them, rightly or wrongly, over and over again. Let me say that notwithstanding what several gentlemen and Miss Macphail have said, I think we should separate the question of the Bank Act from the question of rural credits. They are not necessarily connected, although all financial questions are related to one another. This Committee has decided that they are separate questions. We decided that rural credit was a separate matter and should be referred to the other Committee. I think there is much to be said in favour of an inquiry concerning rural credit. I think the general trend of our evidence has been that the Bank Act is in the main a good Act. Even our Progressive friends say, "your Act is all right, but we want more time to consider it". I think there is a great danger in postponing it. Mr. Bird said they only asked something reasonable. I am sure he thinks he is reasonable, but is it not possible that those who differ from him might be reasonable also? I think the unrest that will prevail in this country if we postpone the Bank Act, will be a grave and serious matter for the business of the country. I think the discussions that have taken place, have been calculated to create a feeling of unrest in this country. They have created conditions, which are already beginning to be—I will not say alarming, but which will disturb the business relations of this country, and in reserving the question of rural credits, to be dealt with as thought best, I do submit that we should not leave this matter over for another year. Let us decide, as I hope we will, to go on with it. Some amendments have been opposed and others accepted. I therefore urge that we go on peacefully. We have been discussing this for two months. There never has been a measure brought before a Committee that has had more attention than this matter. Let us stay here day by day and do our duty and go into the details of the Act, and reserve the question of rural credit as a distinct and separate matter which we will deal with when it properly arises.

Mr. SHAW: I want to make one or two observations in connection with the motion presented by Mr. Carmichael. This motion is one of those double-

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barreled motions which frequently get people into difficulty. In the first place, it comes out of the postponing of the revision of the Bank Act for a year. In the second place, it asks for provision to investigate rural credits. With regard to the first part of the resolution, I am in thorough accord. I think it should be postponed. With regard to the second part, I have grave doubts as to the advisability of the appointment of such a Commission. The question of rural credit is an integral part of the whole question of finance. This question has been considered on numerous occasions in Canada and on many occasions in the United States. It has been the subject of much legislation in the United States; it has been the subject of legislation in Canada, in various provinces of Canada, and as was suggested, the Agriculture Committee is now knee deep in that problem. It seems to me that to appoint another Commission to investigate the matter, when one considers the personnel of the Agricultural Committee considering the problem, would be a useless and perhaps unnecessarily expensive method of trying to ascertain again facts which probably are under the consideration of the Agricultural Committee at the present time. May I say further in that connection, that within my limited knowledge there are dozens and dozens of hand books and literature of tremendous value and amount dealing with this particular problem. Then I say, having these facts in mind, what can we hope to gain by having a further Royal Commission appointed for this investigation? Under these circumstances, I find myself in a rather difficult position with regard to this proposal. I am not particularly anxious with regard to the Royal Commission. I am desirous of seeing a revision of the Bank Act postponed.

The CHAIRMAN: I can help you out. You can vote against Mr. Carmichael's resolution and for Mr. Speakman's.

Mr. SHAW: If Mr. Speakman's resolution is put first, it may resolve the doubt. But if I vote against Mr. Carmichael's resolution, am I not therefore voting against the postponement of the Bank Act?

The CHAIRMAN: No.

Mr. SHAW: In any event, I want to make this clear. I have confidence that the Agricultural Committee will thoroughly ventilate all the problems in connection with rural credits, and I have not doubt the report will be just as valuable as that of any Royal Commission appointed in Canada. If the Commission is appointed, however, I think it ought to represent all interests, and not any special interest in the country. With regard to the revision of the Bank Act, I want to make one or two observations. We have had in the past many bank failures. We have, I think, unfortunately, never investigated to any extent the reasons for these failures that we had a year or so ago, particularly the fiasco in connection with the Merchant's Bank.

The CHAIRMAN: Do not say "failure."

Mr. SHAW: I hesitate to use the word "failure" in view of the objection taken by Mr. Mitchell. However, I will call it "the fiasco." I think Mr. Mitchell will not disagree with that term. There was a situation in which a large bank, one of the largest banks in Canada, one of the banks which, in the judgment of the public at least, stood in a very secure position. All of a sudden, without notice to any but perhaps a limited few, the bank suddenly collapsed and was taken over by its friend.

The CHAIRMAN: The bank fiasco.

Mr. SHAW: All right. The bank fiasco—is taken over suddenly by its admiring friend the Bank of Montreal. In that case, not only was the position of the depositors thereby imperilled, that was a possibility, but certainly there were shareholders, Mr. Mitchell to the contrary notwithstanding, so gravely

imperilled, that if a collapse had taken place, there can be no doubt that the whole credit of the country would have been shaken. I would like to ask if there is any individual in this Committee who has any information from the evidence given here which would indicate the cause of the collapse of the Merchants Bank, or who can indicate the negotiations which took place leading to its amalgamation with the Bank of Montreal.

Mr. VIEN: If the depositors of the Merchants Bank were put in peril and jeopardy, does the gentleman believe that that bank, after suffering these heavy losses could sell its own shares above par?

Mr. SHAW: I said in a fiasco of this kind, there was the possibility, although it did not matter in the case of the Merchants Bank, of tremendous loss, not only to the shareholders but to the depositors, and I suggested also that if a collapse had taken place the credit of the whole Dominion would have been placed in jeopardy.

Mr. VIEN: Is my honourable friend arguing to change the Bank Act? Is it not accepted that in the history of our Banking system in Canada, nothing of the kind has happened other than as a most extraordinary exception. Our Banking system is extremely sound, we believe, and the example of the Merchant's Bank is another example that the banking interests of Canada are well looked after.

Mr. SHAW: If Mr. Vien desires to convince me of the soundness of the Canadian Banking system, I can only say with an open mind in the matter, that I want to be informed. I think we did well to go to the United States to copy the branch banking system.

Mr. McMASTER: To Scotland.

Mr. SHAW: We took it directly from the United States.

Mr. McMASTER: No.

Mr. SHAW: Perhaps Mr. Ross could tell us whether I am right or wrong.

Mr. Ross: Mr. Shaw is correct.

Mr. McMASTER: I beg your pardon, Mr. Shaw.

The CHAIRMAN: You are both right.

Mr. SHAW: The situation is that the United States now are investigating this problem. We had very delightful evidence, to say the least, from Professor Fisher, who told us something about the fundamental relationship existing between the banks and the financial systems of the country. He told us about the inability of the bankers to comprehend the system. I think, without any disrespect to the bankers, there was considerable in what he said, especially when applied to Canadian bankers. They are in charge of a machine which I think they do not thoroughly understand and appreciate. My purpose is simply this—I am speaking for myself—while I have listened with a great deal of care and attention, I think we have not heard from anyone, bankers included, the exact relationship which this Bank Act bears to our financial system. We have heard much of the difficulties which arise through finance. They all agree that we must eliminate if we can the inflations which happen and the deflations which follow, that these are undesirable things and must be removed, bringing in their wake much hardship and much suffering. But no Canadian banker has offered one single suggestion in connection with the matter. Professor Fisher came here and gave evidence in regard to making the medium of exchange bear some relation to price levels. It seems to me the question is much broader than any question of rural credit. It is a question as to whether or not, in the interests of the farmers or in the interests of business men generally, that system is functioning satisfactorily. There are many people who claim

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it does not function. The bankers tell us they have hundreds of millions available for loaning purposes, but people are complaining that they cannot get adequate credit for legitimate business demands. The bankers tell us they have a perfect system, but I do not believe them when they say that. I do think if we allowed this Bank Act to stand over for a year, in order that public opinion may be crystalized in the right direction, and in order that the general thought with regard to the matter may come to fruition, then I think that would come in in the light of the report. I think in considering the matter, we can fix up our Bank Act in such a way that it will really, to the best of our judgment at least, function in the interests of the common people of Canada. It has been suggested by the Finance Minister that there is a great danger in delay or postponement. I do not agree with him in that view. On the other hand, I think the exact contrary is the fact. I think that if you put through the Bank Act this year, much of it resting on tradition only, you are going to create the unrest and the lack of stability that everybody fears. I think that if you pass this Bank Act now for a period of ten years it would have the result of creating the very conditions which we are most anxious to prevent. Speaking again of the Merchant's Bank, few of us, indeed, if any, know the circumstances there. I am sure I do not know the history in connection with it. How can we determine how to remedy any defects which there may be in the Bank Act unless we know the weaknesses which have developed. What are the rules and regulations which determine when a merger should take place. The Act says it is subject to the control of the Finance Minister. If we knew the circumstances in connection with the Merchant's Bank and the Bank of Montreal merger, we would know perhaps what conditions to impose as a pre-requisite before any combination took place. Sir John Aird told us it was a mistake that this combination was allowed. Sir Edmund Walker, I think stated, that if the facts were as he understood from the public press, and he had no other sources of information, in his opinion it was undesirable that that merger should be allowed. Coming from such high sources as this, surely it would not be considered treason on my part if I suggest that perhaps we should make some investigation into that situation and lay down rules and regulations which will prevent any undesirable combinations taking place which may militate to the disadvantage to the people of Canada. I therefore suggest that the revision be postponed.

Mr. CARMICHAEL: The point was raised by the last speaker that the resolution should be divided. I do not feel that I could divide the resolution. If it were my own personal resolution, I would be prepared to give way to the suggestion, but it is not, and I would prefer the resolution as submitted by myself to stand as it is.

Mr. IRVINE: There are a number of things not yet brought out. There are two or three points which may take half an hour or twenty minutes to bring out. To begin with, I rather agree with Mr. Shaw that a Royal Commission would not get us very far. I am in agreement with the viewpoint expressed by others, that this business of inquiring into credit and banking is a matter for this Committee and for Parliament, and not for a Royal Commission. Nevertheless, I am not going to oppose the Royal Commission very strenuously, because I believe that—

The CHAIRMAN: It is one o'clock now.

Some hon. MEMBERS: Question.

The CHAIRMAN: I cannot put the question now. This gentleman has the floor. I think all the members of this Committee will agree we have had all the debate on the question that is necessary and instructive. After Mr. Irvine

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has finished, or shortly after, anything else would be largely repetition. We will adjourn until 4 o'clock. To-morrow is a holiday and I assume Friday will see a very sparse attendance of members in Ottawa, therefore I suggest we meet at 4 o'clock this afternoon.

MR. SHAW: I suggest we meet at 8 o'clock. There are some of us who would like to hear what remarks may be made—shall I say in defence by the Prime Minister.

The CHAIRMAN: That will likely be late.

MR. HANSON: Let us have the vote now.

The CHAIRMAN: The Committee stands adjourned until 4 o'clock this afternoon.

Some hon. MEMBERS: Let us have the vote.

MR. IRVINE: There are a few points I want to make on this question, and I am prepared to go on if the Committee are prepared to sit longer.

Hon. MR. FIELDING: How many minutes will it take?

MR. IRVINE: I figure about a quarter of an hour or twenty minutes.

Hon. MR. FIELDING: Let us stay and finish.

MR. IRVINE: I think we had better let it go until this afternoon.

The Committee adjourned until 4 o'clock.

AFTERNOON SITTING

WEDNESDAY, May 23, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock, Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, please come to order. Mr. Irvine, will you proceed.

MR. IRVINE: Mr. Chairman, when the Committee arose, I had referred to the Royal Commission which was asked for in the amendment. I had said that though I was not particularly enthusiastical over a Royal Commission, yet I was not going to vote against the amendment simply because the Royal Commission was mentioned in it, but there are more important points I want to emphasize and I will leave the question of the Royal Commission alone, because as I understand it, we will have an opportunity of voting on the motion of Mr. Speaker which deals with the charters alone, and has nothing to do with the Royal Commission. I believe it is better for us to take ten years, if necessary, to make a good banking act and secure a sound financial system than to rush a bad act through, which will be in practice for ten years. This Act is being put through to-day under the argument or almost under the excuse, I think, that unrest might follow the postponement of this for one year, so that business may be affected in some way. This is a statement. No argument has been advanced to show how unrest would be likely to grow as the result of postponement for a year. No argument has been advanced to show how a postponement would affect business. That is merely a statement that has been made, and I think we ought to get more than a statement before we rush the Act through, especially when there are good reasons to believe that the failure to postpone it will create a very great deal of unrest indeed. Therefore, I want to make a statement regarding it, which I will prove before I am through. It has been said

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that we have the best financial system in the world. If that is so, how will these conditions disrupt business? How will they create unrest if it is allowed to stand over at least for another year. It has been said that the public may grow panicky, but the public are not all fools, although some of us no doubt are. I think they have some modicum of sense and wit, and I do not see any reason for us to jump to the conclusion that they will all get panicky. But if they did get panicky and undertook to rush the banks, the Bank Act would still be there to protect the situation. There is no danger of a panic happening under the gold basis, because it is set aside by the Bank Act, which is still in operation, but I believe the very opposite effect will be likely, namely that, instead of difficulties arising, credit will very materially be extended by the postponement of the Act, because I believe the bankers themselves, alive to the unrest prevailing at this time will loosen up the credit issues of the country and a very great deal of good will be done by postponing the Act. Instead of harming business, it is very likely to do business a great deal of good. It has been said that rural credit is the important consideration with regard to postponement of the Act. I understood from the Finance Minister in his remarks that that was, from his point of view, the only argument that he had had advanced why this Act should be postponed, and he told us it was on the ground that there was no connection between rural credits and the Bank Act, at least no vital contact between the two. Rural credits, while a very important thing, are no doubt local conditions touching the Bank Act, at least belongs to the financial system. Rural credit is not the only reason for the postponement of the Act. There are other matters even more important than the rural credit question. But before leaving that point let me remark that although it is said to be a separate arrangement, strictly speaking, that is not true. As I have pointed out, there is a more important point to be considered with regard to rural credit than that, and it might be difficult for us to establish proper rural credit without having some system which is now exclusively enjoyed by the banks under the Act. If we pass the Bank Act now, and include with that the ten years' charter, there is the moral obligation for us not to alter it in ten years in any important particular; that is, it would be an important particular if we found it necessary to have a working scheme to include some of the advantages the banks have enjoyed under the Act. We have gone at least into the basis, the function and control of credit, especially in order that we might evolve legislation; we will have legislation under the Bank Act, provided any weakness was discovered in the Act, or any improvements, which after discussion and after investigation, may be made in the Act. The investigation is largely a farce. What we have already done must be largely a farce, if we do not take it into consideration before the Bank Act is passed. If we had reviewed all the evidence that had come up, if it had been placed before the Committee in a proper report, and some disposition made of it before the Bank Act was entered into, then there might be some more satisfaction in the Committee; but as it is, having summoned witnesses from great distances in some instances, having heard some of the ablest men of the world, and having spent a great deal of time in taking evidence, for us to place all that in the waste-paper basket, and go and pass an Act for ten years, would leave a bad impression. I think due importance has not been given to the evidence that we have had the opportunity of taking during the course of the investigation. That is the fact. We have not paid any attention at all to the evidence which has been collected. In fact, the evidence will not be summed up, very likely, until after the Bank Act has passed through the Committee. Therefore I say the whole investigation has been a farce insofar as its effect on the Bank Act has been concerned. In order that we may do our duty, we should not proceed to do business in that way, and having decided in this Committee to take evi-

dence, having decided to call men from the United States and Great Britain, and from various parts of Canada to give evidence on the financial system in relation to the Bank Act that is under consideration, we should at least do ourselves the justice to inquire into the virtues of the evidence that has been given and that applied in any part to the Bank Act in any way. But so far, that has not been done. It was said by the Chairman of the Agricultural Committee that it would take him about three weeks to sum up the evidence presented before the Agricultural Committee before he would arrive at any reasonable conclusion as to what was implied by that evidence. If that is true of that Committee, I do not see why it should not be so of this Committee. It should take us some time to consider the evidence. It should take us at least three days or some time to consider the evidence placed before us. No consideration is going to be given to the evidence. If we pass this Act as we are doing, we conclude, without any regard whatever to the investigation, that there was nothing in it. That may be the attitude. I do not think it is, but we ought to have considered it to find out whether there was anything in it or not. There are one or two outstanding facts which were made clear by the investigation. The first is the fact of our economic depression, which is still upon this country, and upon all the countries of the world. That fact has been brought out and no one has closely challenged it and it certainly has received no consideration at the hands of the Committee. Now the contraction or expansion of credit, in either case, I believe has been shown to have a direct effect on prices, that the price of goods has a direct effect on industries and unemployment. If there is any truth in that, it has a bearing on the Bank Act, because the bankers have absolute control of the financial system. They may institute inflation if they so desire, or they may institute deflation if they so desire. That is a power which they exercise. If that power is exercised, it immediately affects prices; if it affects prices, it immediately affects industry. Consequently this Banking Act has a vital connection with the industrial life of the country, and I might say that there has been no consideration given to the Act from the point of view of its effects on our industrial life. The bankers have no suggestions to offer except this: A leading banker of the country says the farmers should work 16 hours a day; the only remedy the bankers can apply is that he should work harder than he is now doing. He says to the working man that the only way he can suggest improvement, is that the working man should work harder, when he cannot get anything to do. That is the answer to the people of Canada which is to come from this Committee, through those who are to be benefited most by the Banking Act. I think it has been revealed before this Committee through the investigation that the bankers do not know what money is, that the bankers do not know what money is supposed to do, that the bankers do not know what effect money has upon industry. I am not making this as a criticism on the bankers. They know their own business as it now exists. They are good book-keepers. They understand what good security is for credit. They know the mechanics of banking, but through the confession of the banks, of some of the bankers, I repeat that they do not know what money is and they do not know what money should do in the industrial system, nor have they any idea of the banks' action upon the industrial system. Not knowing these things, the Bank Act that has been drawn up to carry out the aims of financiers, which are diametrically opposed to the best interests of civilization, should not be passed. The Banking Act, as it now stands, really makes possible the application of entirely false principles. It carries out a false concept of money; it carries out the ideas of men who confessedly do not know what the function of credit is in relation to the industrial world. That has been confessed by leading bankers, and I think it is the duty

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of this Committee to go slowly in placing all the powers embodied in the Act in the hands of men who do not know what they are doing.

Mr. ROBICHAUD: May I ask my friend if he ever had any experience in business?

Mr. IRVINE: Yes, I have had experience in business. I must remind you again that a leading banker of this country stated that the function of money was not the distribution of goods. These are not his precise words, but that is his exact meaning. That was the original function of money unless the bankers have changed it. If this Act makes it possible for them to change it, we ought to know it, but let me add that if it is unrest that the Committee is afraid of, I want to tell you now that in my opinion you will save the country a great deal of unrest by taking care now. If you pass the Act as it now stands, under the present financial system of Canada, in the next ten years as in the last ten years, I will be very much surprised if we do not have a great deal more unrest. The investigation has had no bearing on the Banking Act, as far as our actions are concerned, and I repeat, we will create unrest if we put the Act through hastily without taking due regard to the investigation which has taken place. The investigation has scarcely well begun. We have had no business men. We do not know whether the Bank Act is good for business or not. The gentleman asked me if I had any experience in business. I would like to get a few business men in Canada, a few manufacturers to tell us whether the Banking Act operates in their interests, as it does in the bankers' interests.

Mr. TOBIN: Have you heard any complaints from the manufacturers?

Mr. IRVINE: Yes, sir. If you come upstairs I will show you a lot of complaints from business people. I have complaints from business men who do not wish to make their names public because of the power of the banks. That is the plain fact of the matter, and I am certainly going to ask for business men to be called, if this is going to go through, because it seems to me they will not be satisfied with it as it is. Moreover, we ought to have close investigation into the fiasco of the Merchants Bank, or to find out just why the Merchants Bank did fiasco. That is my question. We also want to have an investigation into the Federal Reserve System of the United States. These are three important investigations that have to go on if we are going to pass the Banking Act. Now I am glad to hear the Finance Minister say there is no hurry to go home, no hurry to close Parliament. I am sure I am willing to stay here all year, if we are going to go into those things, as they should be gone into.

The CHAIRMAN: Order, gentlemen.

Mr. IRVINE: I want to emphasize briefly the disadvantages which may be looked for, if this is not postponed. First of all, we shall have wasted our efforts, because we are at present not prepared to act on the evidence we have taken. Thus all our efforts of investigation have been, as far as this Act is concerned, a complete failure; and remember that this Act is going into force, if this resolution does not pass, for ten years. Next, if the Finance system is continued, and is divorced from its proper function, we may anticipate a great deal more unrest than we might expect from the postponement of this Act for a year. In the next place, the amendments necessary to the Banking Act, which made possible the fiasco of the Merchants Bank, cannot be dealt with if we do not know why the Merchants Bank fiascoed, and we want to get that information if we are going to safeguard against such a thing in the future. I want to know just exactly what brought about that condition. If we do not do these things, in my opinion, we will not be doing our duty; if we do not take every precaution before we take this step of passing a new Banking Act, we will not be doing our duty, and I think it is merely an excuse for us to say that it

will create unrest, if we do not pass this Act. I repeat that that is only a statement. There has been no evidence given why we should be led to that belief, that it will create unrest. Let this Government state that in view of the evidence that is to be taken, in view of the careful consideration which they deem it necessary to give an Act of this importance, and in view of the fact that the season is far spent, it would be wise for them to continue the best banking system in the world for another year, knowing it will not hurt business, and that there is no need at all for panic.

MR. SPEAKMAN: Mr. Chairman, I propose to be very brief indeed this afternoon, partly because it is my habit to be brief, and because I think all the essential points have been covered and I do not believe in repetition. I am only going to touch on two or three points, which to my mind have not been effectually dealt with up to this time. My principal interest in this is the question of rural credits. This was dealt with so satisfactorily by other men—I mentioned it myself before, and I think the subject has been discussed very fully, except this one point—it has been stated in the press that I was proposing that this rural credit should be operated through the banks. That is not a correct statement of my position. What I do hold is this, that we do not know yet whether the short term will not have to be operated to some extent, at least, through the banks. Personally I am of the opinion that it would be better to have been separated, as far as possible, but up to the present, having no suggestion of any kind, we cannot state for certain whether they will have to be operated through the banks or in co-operation with the banks. In connection with that I must say that I have been very much dissatisfied with the statement of some of the bankers here. They have admitted—they have made the statement time and time again, that there is a limit in that respect. In reference to the most important industry in Canada, I think it will show from a national standpoint that the system has not been giving satisfaction. When they have been able to lend the money, there has not been sufficient, owing to the compounding of interest. That is admitted, I think that they have been unable for the last great number of years to handle all the credit of the country, and these are the men who, having seen the failure in that respect, should be prepared with some remedy that might be adopted. They have practically had control of all the liquid credit in this country, some of which under any scheme of rural credits would have to be applied to rural credits, and to my mind it is a most unsatisfactory statement to say that they have no suggestion to offer. Now, I will leave that point. The necessity of it has been urged, the different methods in which it can be accomplished, have been urged. The next point is this: a request has come from at least two of the Provincial Governments for postponement, and for good reasons given. I am not in the confidence of the Government of Manitoba. They have joined with the Government of Alberta in this request. I am to some extent in the confidence of the Government of Alberta, and I will give you one or two reasons why they think it should be postponed. In those provinces, the Provincial Governments are faced with the request of our Provincial banks for various forms of financial assistance, which they have been asked to give to other interests there. They are not able at the present time to meet that condition, and they feel the Bank Act can be altered in some respects, which would enable them to cope with that situation. They have asked that this should be held over for two reasons, that they should be supplied with the evidence and the discussions taking place before this Committee, and have an opportunity of extracting the real meat of the matter from it, and be in position to confer with the Dominion Government as to what amendments they should jointly bring forward to meet the conditions existing, to enable those Governments to some extent to satisfy their people. It is a matter affecting

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every one. It includes bankers, business men, farmers and governments. The greatest dissatisfaction has been expressed in regard to our banking system by the farmers' organizations, and not only by the Western farmers' organization. The desire for an investigation into the theories of finance has been pressed by those organizations. I know from personal contact with hundreds of these men — I can pretty nearly say with thousands of these men through the country — that there is growing dissatisfaction with the system, a growing feeling that it is not functioning satisfactorily, a growing feeling for something better. It was because of that that this investigation was held, and that personally I supported the calling of these witnesses. It has been stated that the success of the banking system rests upon the confidence of the people in the banking system. I think that is an acknowledged fact everywhere. Confidence is the foundation of our banking system, not minute gold reserves nor any other sort of reserve. Now, the confidence of these men has been shaken and they have been reaching out and studying and considering various methods, which are believed by the bankers, by many business men and by most of the members of this Government to be false, or fallacious. One reason why I was most desirous to see the investigation held, was that we should be able, if these things are fallacious, to say "yes, they are fallacious," but they should be able to turn their efforts in a better direction. At the present time I am neither affirming nor denying any of the theories brought forward. They have not been satisfactory to me in their full conclusions, but I have seen a good many elements of sound common sense in the ideas advanced. Let these people who are blindly reaching forward for something better have the evidence in their hands, and let them be able to come to some sound conclusion upon it. What will happen if we put this through without giving them that opportunity, is that the feeling that they have been treated unfairly will persist. They will say the whole investigation was a farce, in that the people who are dissatisfied with the present system have not been given an opportunity to see the right or the wrong of the evidence or of the theories submitted. It simply means they will feel they have been unjustly treated to that extent, and the feeling will grow amongst them that they have to make a change. I want to see no change made, except for the better. I want to see no change made for the farmer, that is not one of sound and solid business, and the only way we can get sound and solid business is to get all the knowledge they possibly can get on these subjects, because I have enough confidence in every member, and in the people at home that, given the truth, they will follow the truth and follow right lines, rather than follow false lines or follow mistaken theories. If they do not get that opportunity on the whole, they will say, as they are saying now, that this Bank Act was passed without giving them an opportunity to make a study of it. By giving them that opportunity we would increase confidence in our institutions, if our institutions are sound, because it would allay the spirit of unrest, which I deplore as much as any man in this Committee. It would give them an opportunity of forsaking their false gods, if those gods are false. Now I think I have said enough, along that line, but I feel pretty strongly on this subject, very strongly indeed. I have been accused sometimes of being a moderate man; I am a moderate man, but there is a time when moderation becomes a crime, and there is a time when a conciliatory attitude may be a sign of weakness. I am willing to be moderate as long as possible, and conciliatory as long as that is the best method to pursue, but I am prepared to fight for what I feel is right, just as well as any man in this room. Now, I just want to read three or four very short resolutions on this subject. This is a letter from the Government of Manitoba; it is a copy sent to us. It speaks of a communication—it is not a private communication, a copy of a wire sent to the Minister of Finance and the Prime Minister:

"Having regard to the importance of the whole subject of Bank Act revision and to the weight and scope of evidence submitted to the Select Committee on Banking, the Manitoba Government respectfully suggests that it would permit of better understanding of banking functions and more satisfactory amendments to the Bank Act particularly as applied to agriculture if final action on report of Committee should be deferred till next session of Dominion House."

That, as I say, would give the Provincial Government an opportunity of going into this question, which interests them so vitally, and enable the Dominion Government to make such amendments as are necessary.

I have the same expression from the Government of Alberta, in different words. This from Manitoba is from the Government, and this from Alberta was from the Assembly, concurred in and sent forward by the Government:—

"Whereas, be it resolved:

"That this Assembly views with appreciation the assurance of the Federal Government that during the revision of the Bank Act opportunity will be given for inquiry into the whole question of credit.

"This Assembly is of the opinion that no revision of the Act should be completed until a broad and comprehensive inquiry and investigation has been held into agricultural conditions and the systems of credit prevailing in the Prairie Provinces, and that the final revision of the Act should be postponed one year, in order that the evidence taken by the Committee, and its recommendations, may be considered and discussed by the agricultural interests of Western Canada, and that a copy of this resolution be forwarded to the Right Hon. W. L. Mackenzie King, Premier of Canada, and the Hon. W. S. Fielding, Minister of Finance."

Now, just by the way, here is a point that has been touched on before. This resolution speaks about recommendations; we have made no recommendations, we have taken no thought of them, we have never considered them. We have no report read; we do not know what our report will be or what its bearing upon the Bank Act would be, and we have no recommendations to present.

Now, I said it was not only the Western farmers who were interested in this way. Here is a resolution that was passed in Nova Scotia, whose farmers feel the same way. This may interest the Minister of Finance, because he is acquainted with a great many of the farmers down there.

"Whereas, be it resolved:

"That this Annual Convention of United Farmers of Nova Scotia is of the opinion that no revision of the Bank Act should be completed until a broad and comprehensive inquiry and investigation has been held into agricultural conditions and the systems of credit prevailing in the Maritime Provinces, and that the final revision of the Act should be postponed one year, in order that the evidence taken by the Committee, and its recommendations, may be considered and discussed by the agricultural interests of the Maritime Provinces."

Hon. Mr. FIELDING: Have you any information as to how many farmers were present when that was passed?

Mr. SPEAKMAN: I have not. I do not know how many members they have, or how the organization functions, but I presume it is the only organized body of farmers that they have there at the present time, whether large or small. This was sent by Mr. Shipley, I think, the Secretary of the United Farmers, and moved by A. J. MacGillivray, M.P.P., and seconded by R. H. Smith, M.P.P. It is sent from Truro, Nova Scotia.

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The Canadian Council of Agriculture—I am not going to read all this; there is just one section here which deals with this particular subject.

“Whereas the Council has requested the Dominion Government to institute an inquiry into the Canadian banking system, and

“Whereas the Parliamentary Committee on Banking and Commerce is making such inquiry:

“Therefore be it resolved that the Government be asked to defer revision of the Banking Act for one year to enable all bodies interested in this legislation to give adequate study to the evidence laid before and the conclusions reached by the Committee.”

That was passed on March 31, 1923. The Nova Scotia one was passed on May 11, 1923. They are all referring to this session, and they are all for this Committee. Some were passed at the beginning, some were passed towards the end of this inquiry, but all bear on the same subject, that they should have an opportunity of weighing the evidence and seeing the recommendations before this Act is finally passed for ten years.

Mr. MARLER: Why was this not all brought up before, in the House?

Mr. SPEAKMAN: Because we were informed that all the discussion would be held here. I was asked why this was not presented to Parliament when the Bill was read for the second time before it went into Committee. Possibly it should have been, but we simply accepted the statement of the Minister of Finance, and if we were mistaken in our interpretation of the procedure, perhaps it was our fault. But we let it go because we thought all the statements and amendments necessary could be made in this Committee.

Mr. ROBICHAUD: Have you any of those from New Brunswick at all?

Mr. SPEAKMAN: No, I simply brought the one from Nova Scotia to show that this was not only the feeling among the farmers of the west. We have been accused of wanting everything, but this shows that there is a strong feeling among agriculturists, in various parts of the country.

Mr. McKAY: Have you had any requests from the farmers of the province of Ontario?

Mr. SPEAKMAN: No official requests.

Mr. McKAY: Any from the province of Quebec?

Mr. SPEAKMAN: I have read all that I have at the present time.

Mr. McKAY: I expected you would have one from the province of Ontario, as it has a Farmers' Government.

Mr. SPEAKMAN: I am not responsible for them. You have some members from Ontario here who speak with a fairly effective voice on both sides of the question. I am bringing forward simply the concrete information which I have, and I am not making any suggestions as to where any more could come from.

Miss McPHAIL: The Canadian Council of Agriculture includes representatives from the province of Ontario.

Mr. SPEAKMAN: Yes, it does.

Mr. McKAY: I was simply asking if there were any special requests from the province of Ontario.

Mr. SPEAKMAN: No.

Mr. McKAY: Are you aware of legislation that was passed in the province of Alberta with regard to short term and long term credits, and are you aware of such an Act being passed in New Brunswick also?

Mr. SPEAKMAN: I am aware of that, and if they are satisfactory, all well and good, but the information that has been expressed to me is this, that by the nature of their restrictions they are not able to function as they should be.

Mr. McKAY: They are functioning splendidly in Ontario, and the latest report from Alberta shows they are doing very well there.

Mr. SPEAKMAN: That does not exactly coincide with the information from the Manitoba Government.

Mr. McKAY: I suppose you have read the Jackman Report?

Mr. SPEAKMAN: Yes, and I have discussed it with the representative of the Credit Association from Manitoba, and the opinion seems to be that the Manitoba Government could function more satisfactorily if they could have a wider scope.

Mr. McKAY: A federal scope?

Mr. SPEAKMAN: Personally, I believe this is a federal matter, and apparently the Government of the province of Manitoba feels that however well the present system is functioning there, it would function better if certain amendments were made to the Act.

Mr. McKAY: Are you aware that the Manitoba system has fallen down—if it has fallen down—from maladministration?

Mr. SPEAKMAN: I am not prepared to discuss whether the Manitoba system has fallen down. Information I have is this, that the report given was conceded by those who gave the report, to be a superficial one, owing to the fact that no real investigation had been made.

Mr. McKAY: That is the original report of Jackman?

Mr. SPEAKMAN: Yes. However, I am only discussing these matters I have in my hand. I am simply voicing the request of the province of Manitoba as expressed, no matter whether the present system there is working satisfactorily or not.

Now, I did not purpose making a long speech on this. I have given some reasons why the passing of the Act should be deferred. I have been—and I must confess, with all the deference I feel toward the Minister of Finance; for of course, he will understand that although a younger man and less experienced, I still have to have my own opinion—my opinion is just the obverse of his in that respect. I say that public unrest will be lessened rather than increased by a little thoughtful work on the part of Parliament. The evidence of any attempt to suppress evidence, as regards the people, will do more to create that state of unrest, I do believe, than to give them an opportunity of knowing the whole business. That is one thing I do thoroughly believe in, that the best way to correct error, if error exists, is to enable the people falling into error to get hold of the truth of what is happening, and to let them have the truth as far as we have had it here in the form of evidence. That is why I brought forward this amendment. I am sorry, in this connection, that the Government could not accept it, and that the Committee could not vote upon the motion as I brought it before, because I do not consider that this is quite as satisfactory, in that it establishes a precedent for yearly revision. I know, frankly speaking, that it does not; each Act, each time it passes, sets the time it will be revised, and I do not think a yearly revision is necessary. But I had to bring it in its present form because of the objection to the form in which it previously was. All I want is to have this postponed for one year, the Act left in operation for one year, and the final revision and the final extension of charters given at that time, after everyone has had an opportunity of studying our recommendation, weighing the matter for themselves, formulating some opinions upon it and making such suggestions as may occur to them, which may

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be of value to the Committee in its deliberations, to the banking institutions themselves, and to the Government in putting this in force. I have said all that I need say on this.

Mr. COOTE: May I have three minutes; I think that is about all I want. I want to say that I am sorry I have to take part in this discussion at all. I want to refer to what Mr. Mitchell said this morning, and I would like to point out that in 1913 the Bank Act—that is, the new bill—was referred to the Committee on January 30th of that year. This year, we got our bill on the 20th of March. In that year, 1913, the Committee met to consider the bill the first time on February 19th. This year we met on March 22nd, but the bill was not printed in French, so we did not consider the bill at all until after the Easter recess; in fact, our first meeting was held, to consider the bill, on April 11th. At that meeting Mr. Bevington was heard, and as a matter of fact the most of the time of this Committee, has been taken up in hearing witnesses on Mr. Irvine's resolution, and not really and primarily considering the Bank Act. The bill was reported to the House, in the year 1913, by the Committee on May 8th. That is, from the time the bill was referred to the Committee until it was reported back to the House would be three months and eight days, and if we were to have anything like the same time this year, Mr. Chairman, it would be very late before we could get through. In addition to that, I would like to point out that in the United States in the last 10 years, they have made a very radical change in their banking procedure or in their system by bringing in the Federal Reserve System, and surely we could call the manager of one of these Federal Reserve Banks and get for this Committee some information as to what improvement that has made in the United States system. At the present time, the United States is enjoying an era of prosperity such as Canada is not enjoying, and two United States citizens have recently stated to me that it is their opinion that it was largely on account of the improvement which they had made in their banking system that they were now enjoying this prosperity. Then, just one minute in regard to the question of rural credits.

Mr. McKAY: You say the United States is enjoying prosperity. Is that prosperity all over the United States, or is it confined to the cities and towns?

Mr. COOTE: I do not know, Mr. McKay. I am simply giving you the statement.

Mr. McKAY: The last report from the United States shows that over 640,000 farmers left the land during the last year.

Mr. KELLNER: Is that a larger percentage than usual?

Mr. McKAY: Yes.

Mr. COOTE: Just a word or two on the question of rural credits, because in the minds of some members of this Committee I think the question is very much confused at the present time. We have in Alberta, I might say, rural credit societies under the Provincial Act. These societies now secure their money at the chartered banks, and pay 7 per cent for it, and it is the rate of interest they are paying that largely nullifies the good which these societies can do, because they must provide their own running expenses on top of 7 per cent. The suggestion has been made to me by bankers, bank managers there, that there is no reason why the banks should not, under changes supply this money to the rural credit societies to be loaned by them at 5 per cent or 5½ per cent at the most.

The CHAIRMAN: What security do these rural societies give?

Mr. COOTE: I have not the act here, but I think I can give you a general idea. The security consists of the society itself; that is, all the members must take stock in it. The municipality has, as a rule, shares in it, and the Provincial Government takes a share, and the loans are all passed upon by a local

board, and by a representative of the Government as well, and then by the bank manager, so you have local responsibility in the placing of loans.

The CHAIRMAN: The society borrows for its individual members?

Mr. COOTE: Yes, the society guarantees the note of the individual, but the fact that they have to pay 7 per cent—they must have their own secretary, and run their own machinery altogether outside of the bank, so that they can enquire into this man's credit standing, financial standing, and guarantee his note to the bank. The rate of interest is the biggest hindrance which they are suffering under. Now, the bankers who have been here, everyone of them stated, I think, that they had large loans past due in Western Canada, that they had met with large losses in Western Canada. I think, Mr. Chairman, these men should be called before this Committee and required to state how much they have lost in Western Canada, and how much is past due, and what is the reason. It must either be because of a faulty system of furnishing the loans, or else that farming in that country is unprofitable. It must be either the one or the other. We surely should be able to determine that, and we cannot determine it without hearing the bankers who have been responsible for these loans that are in such bad standing. I want to point out there, if I can, that there is some connection between the matter of rural credits—I mean short term rural credits—and the Bank Act. Some bankers go so far as to state that the Bank Act should be altered to allow the banks to take deposits—that is, long term deposits—and possibly pay an extra half per cent interest, and earmark those deposits in a special fund, and that they should be used for this special purpose. Now, I am not prepared to say that I would agree or disagree with that, but I want to point out to the Committee in all fairness that nobody can say truthfully that there is no connection between the Bank Act and the question of rural credits. Short term rural credits should come from exactly the same place as now; that is, the Savings Bank deposits.

The CHAIRMAN: Gentlemen, I think we had better put Mr. Speakman's motion. I think this motion is directly upon the question as to whether or not we shall have a year's extension, and we will get that disposed of. Mr. Speakman moves that Section 5 of Bill 83 be amended by striking out the words "thirty-three" in the fourth and eighteenth lines thereof, and substituting the words "twenty-four", twenty-four meaning 1924. That is, one year instead of ten years.

Mr. GOOD: Just before you put that motion, may I suggest that while Mr. Speakman was compelled under the rule to submit the proposition in that particular form, I think he has already said that it is hardly the exact form in which we want to vote on it. I wondered if you and the Minister of Finance would permit the resolution to appear before us somewhat as it was the other day; I think it would be a little clearer to us. This is a particular clause of the Bill. If the Bill is suspended and laid over, this particular amendment is laid over with it.

The CHAIRMAN: If this is accepted by the Committee, it would have that significance. We are just voting on the principle.

Mr. Speakman's motion declared lost.

The CHAIRMAN: Now, Mr. Carmichael's motion, as you know—

Mr. SHAW: I just want to point out that I did not vote on that motion, and I am not going to vote on the following one, because, for the convenience of Mr. Hanson, who was taken suddenly ill, he asked me to pair with him.

The CHAIRMAN: Yes, I was informed of that. Mr. Carmichael moves that consideration of Bill 83 be reported to the House, with a recommendation

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that the charters of the banks be extended for one year, and with a further recommendation that a Royal Commission be appointed to make an inquiry during the ensuing year into the whole field of banking, finance and credit, and report to the next session of Parliament.

Mr. GOOD: We really have not considered this question of a Commission, except very briefly this morning. I think we ought to hear the Minister of Finance on that question. He did not express an opinion.

Hon. Mr. FIELDING: Yes I did; I did not favour the motion. I regretted that I was not in favour of the honourable gentleman's motion. They say they are reasonable men, I think I am also reasonable.

The CHAIRMAN: Two or three other members, I think, spoke of it also.

Mr. Carmichael's motion declared lost.

The CHAIRMAN: Mr. Woodsworth, do you consent to your motion being put now? The only difference between your motion and the others is one of time.

Mr. WOODSWORTH: Yes. Just one word with regard to it. I think this is on a somewhat different basis from the others, which would simply defer action for a year. It seems to me that it is necessary, on account of the rapidly changing conditions which we find in the economic world to-day, especially since the war, that we ought not to extend the charters for so long a period as ten years. I think that when the Parliament of the country itself is required to go to the people every five years, roughly speaking, there is no particular reason why a group of people who seek a franchise from the people ought not to have this submitted to the people at least every five years. I am fully aware that certain amendments may be made from year to year, but at the same time, as the Minister of Finance himself suggested, there is more or less the implication, when this Bank Act is amended, that it stands for a period, in its main essentials, of ten years, and the charters are granted under that supposition. Without arguing the case at any greater length, I would urge that the five year period is ample time, and that at the end of that time we ought to have the whole thing thoroughly revised; at least those who seek valuable franchises like that from the people ought to come and make application to have them renewed.

Mr. BIRD: May I ask the Minister of Finance to give a brief explanation of the ten-year period? What was the origin of it?

Hon. Mr. FIELDING: I confess that I do not know what the argument was in favour of it, but it has been the custom.

The CHAIRMAN: It originated with the banks.

Hon. Mr. FIELDING: It has been the custom of the Canadian Parliament to extend the charters for a ten-year period. The desire was, if I may use the expression, to keep a grip on them. My impression is that in England there is no limit to the Bank charters, although I do not wish to speak too positively. But I think that a five-year term is too short to enable a bank to enjoy the public confidence that is very desirable. However, the ten-year period has been the practice for some time, though I cannot tell you just why it began.

Mr. SPENCER: The Minister has just told us that in England there is no limit. Is it not possible for Canada to cancel the charters after reasonable notice?

Hon. Mr. FIELDING: I do not think you could cancel a charter. If a bank is guilty of misconduct, there are fifty ways in which you can bring it up, but I do not think you could cancel its charter.

The CHAIRMAN: The question is on Mr. Woodsworth's motion.

Mr. BIRD: Just a brief question—

Some Hon. MEMBERS: Question.

Mr. BIRD: I am asking the courtesy of the Chair.

The CHAIRMAN: Go on, Mr. Bird.

Mr. BIRD: Supposing that our findings with regard to rural credits should necessitate some modification of the Bank Act, would it be in order to bring the question of rural credits under revision, say next year?

Hon. Mr. FIELDING: I would almost think that that would be quite consistent with the purposes of the Act. I do not think that for the purposes of rural credits you need any change in the Bank Act. The bankers can do their part. It is a question of money, and if your rural credit system required more money from the banks they would have to get the same terms as other people. If the development of the rural credit movement showed that you wanted some change, not striking at any vital defect in the Act, I think it could be done. But, I think that if you propose next year to reduce the term from ten years to five years, that would be a breach of faith, and I do not think you could do that.

Mr. Woodsworth's amendment declared lost.

The CHAIRMAN: That disposes of the amendments except one by the Minister of Finance in regard to Section 5.

Mr. BIRD: Will you permit me to give notice of a motion that two witnesses conversant with the Federal Reserve System of the United States be called to give evidence before the Committee.

The CHAIRMAN: It will not be necessary to put that as a notice of motion. We will now proceed with the amendment to Section 5.

Mr. BIRD: There is Mr. Shaw's motion; are we not going to consider that to-day?

Mr. IRVINE: I think it is very essential that we should consider Mr. Shaw's amendment now.

The CHAIRMAN: I did not pass it over intentionally, my mind was on the amendment to Section 5. Mr. Shaw, do you wish to move your motion to-day?

Mr. SHAW: Yes, I am ready to proceed with it. Mr. Chairman, the motion which I proposed is:—

"That Sir Montague Allan, D. C. Macarow, and C. C. Kippin, respectively former president, general manager, and assistant general manager, of the Merchants Bank, be forthwith summoned to give evidence before the Select Standing Committee on Banking and Commerce."

As honourable Members will observe, the three gentlemen mentioned were officers of the Merchants Bank at the time of the financial fiasco of which we have heard so frequently. I suggested this morning, and I am not going to elaborate what I said, that certainly I am not aware, and I doubt whether many Members of the Committee are aware of the actual transactions which resulted in the collapse of the Merchants Bank of Canada, or of the negotiations, if they may be so called, which resulted in the merger of that bank with the Bank of Montreal. The facts, however, would appear to be that in the preceding financial statement of the Merchants Bank we found that bank in a state of security, in a state which, so far as its own statement disclosed, was designed to give confidence to the public of Canada, confidence not only to the shareholders and depositors but to the public of Canada generally.

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Up to that time, the Merchants Bank had had a very long and very honourable history. They had a history of service of which I think any bank in this country might well have been proud. In Western Canada, those of us who have lived there for the last quarter of a century were thoroughly familiar with the operations of that bank, more so than with those of any other bank. It was a farmers' bank, it made special efforts to meet the demands of the farmer community. It was especially solicitous in that regard, and in that particular I couple with it the Canadian Bank of Commerce, because it is only fair to say that under the superintendence of Mr. Brown, the Canadian Bank of Commerce did play a very large part in meeting the legitimate demands of the farming population of Western Canada.

From that position, showing a strong financial position and an adequate reserve, suddenly one day—I think it was in the month of December, 1921—the public were informed that the Merchants Bank was in a state of collapse, and that something would have to be done to preserve the assets of the shareholders and depositors. Then with the consent of the Minister of Finance, the merger took place. The consolidation of those two banks reduced the number of chartered banks in Canada from eighteen to seventeen, as it is at present. In Canada, there has been a very strong tendency towards centralization within the past twenty years; at least, the number of chartered banks has been reduced, I think, from thirty-six to seventeen. The movement towards centralization was accentuated by this combination or merger. Now, there are two points of view with regard to this particular merger, and I have heard both of them voiced in public. I am going to suggest them here, not because I know the facts, because I am frank in saying that I do not know them; but it has been suggested by some people that this was a deep laid conspiracy, a plot of some kind or other by which the very strong and powerful Bank of Montreal desired to get control of this institution which had a very substantial business, especially in Western Canada; that the Bank of Montreal, to a very limited extent, met the requirements of the farming community, at least so far as Western Canada was concerned, and that there was some deep laid scheme by which possession would be secured of the Merchants Bank with its especial connections in Western Canada. On the other hand, it has been suggested—and personally I think perhaps the truth lies in this direction to a greater extent than in the former—that it was simply a case of some sort of speculating venture by officials of the Merchants Bank, that suddenly they found themselves with their reserves depleted, and their business in a critical condition, and that then in a state of panic they rushed off and entered into negotiations which resulted in a very considerable loss to their shareholders.

Now, the public of Canada have never been favoured with the history of this conspiracy or collapse,—I care not what you call it—information has never been vouchsafed to the public. I presume that the Minister of Finance would be in possession of all the facts; I do not know. In any event he gave his approval to the merger, and I presume that for that purpose it was necessary for him to be placed in possession of all the facts.

Hon. Mr. FIELDING: Which Minister of Finance does the honourable member mean?

Mr. SHAW: I am frank to say that it could not be the present Minister of Finance, because I believe he took office subsequent to that date.

Hon. Mr. FIELDING: We are jointly responsible. My honourable friend, Sir Henry Drayton began it, and later it came before me.

Mr. SHAW: Then, perhaps there are two Finance Ministers who are familiar with the facts and circumstances.

Mr. W. F. MACLEAN: Call them both.

Mr. SHAW: If either of the Ministers of Finance is prepared to disclose to the Committee the full facts, and to give assurance that they are possessed of all the facts in connection with that matter, I am prepared to substitute their names for some of the gentlemen mentioned in the resolution. However, the fact is that there is much which has not been disclosed because, if I am informed correctly, the Merchants Bank, not in December, or November, 1921, realized the critical position they were in, they came to that conclusion some months previously, and if I am informed correctly, they made approaches to the Government of Canada, with the view of trying to affect some merger. I am informed that they actually approached the Royal Bank of Canada, and made some proposal to it which was not acceptable, and subsequently, the then Minister of Finance, was approached with a view to giving his approval to some sort of merger, whether with the Bank of Montreal or with some other bank, I do not know. But what I want to point out is, that under the surface there are many facts not only dealing with the collapse itself, but dealing with the subsequent negotiations regarding a merger which have not been presented to the people of Canada, and which have at least left a feeling that there is something beneath the surface, something undisclosed which, for the purpose of restoring confidence in the banking system of Canada should be given or disclosed. Now, as I suggested this morning, the officers of the Canadian Bank of Commerce have frankly indicated to this Committee that if the financial conditions of affairs with regard to the Merchants Bank was as indicated by the company, then the merger should never have taken place, that the Merchants Bank should have been preserved to function in the interests of the people of Canada which I think it can be fairly said they were doing. Another member, I think, of the same bank, not only disapproved, but stated he did not have the information upon which he could form a judgment. Now, the importance of a knowledge of these facts, it seems to me, lies in the fact that under the Bank Act the collapse took place. What I want to know is, what defect is there in the Bank Act which permitted a collapse of this character to take place, and which permitted a financial merger of this character to take place. There must be some shortcoming. How are you going to remedy either unless you know the facts out of which the collapse arose and the circumstances under which the merger became an accomplished fact. It is therefore with that purpose in mind that I bring forward this resolution for the purpose of bringing all the facts to light in order that we might use the information gained, in repairing, if you like, the Bank Act provision, in order that the public may be protected, in order that the shareholders may not suffer as they did in this particular case, and in order that the interests of the depositors may be preserved, because I personally shudder to think what would have happened if the Bank of Montreal had not gallantly come to the rescue of the Merchant's Bank, if it was in the state of financial collapse that is sometimes indicated in the newspaper reports. I am satisfied, and I know that the shareholders would have lost heavily. I doubt not that the depositors would have suffered heavily also, and more important than all is the fact that the credit of Canada would have been seriously impaired. I think it is in the interests of all the public—I think it is in the interests of the bank themselves, that these facts should be published now and fully disclosed, in order that we might build into the Bank Act, as it now exists, the necessary provisions to make a permanent and substantial structure against things of this character possibly occurring again.

Mr. HUGHES: Is there any member of the Committee whose special duty it is to determine who will come before this Committee and give evidence?

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Mr. IRVINE: It is not functioning.

Mr. HUGHES: Would not these be the proper men to bring these witnesses before the Committee?

Mr. SHAW: I made inquiry about that matter. I understood the suggestion had been made to your Committee and it refused to call any witnesses in this matter and in addition to that I subsequently found out that the Committee had ceased to function.

The CHAIRMAN: The Committee had not ceased to function.

Mr. IRVINE: The understanding I had about the sub-Committee was that if the information desired was not elicited from Mr. Edwards others could be called later, but since that time I think you announced from the Chair that any other witnesses were to be called by this Committee and not by the sub-Committee.

The CHAIRMAN: I did not know that Mr. Shaw's motion was just to call the witnesses; otherwise we could have dealt with it without having it go on the order paper.

Mr. MITCHELL: When that question came before the sub-Committee, there was no such understanding as far as I knew, as Mr. Irvine refers to. The matter was brought before the Committee, but we decided to let the matter stand, and subsequently you said that any future witnesses would come before the general Committee.

Hon. Mr. FIELDING: Two of these witnesses' named have already been tried and acquitted. Are we going to try them again?

Mr. SHAW: Not in the slightest. They cannot be tried again, but I think the Committee, if there is any suggestion of that, if they are going to be tried on some additional charge on which they were not tried before, the Committee should give the gentlemen the assurance that the evidence they might give is not going to be used against them in any criminal trial—

Hon. Mr. FIELDING: These two witnesses were tried. Let me say at once with regard to the supposed superior knowledge which the Minister of Finance has on this matter, that is entirely a delusion. Our information was that a return was made, which to the best of our knowledge and belief, was wrong. The only power we had in the matter was to prosecute. Wisely or not, we took the necessary steps to do that. A prosecution took place. Both these witnesses were tried and acquitted. All the knowledge we have is that received from the public press. The country knows a heap about it. They published column after column, day after day in all the papers. There is no Banking Act which can prevent a man mismanaging his business. It is quite clear that the management of the bank was reckless and extravagant. You cannot by any Act of Parliament make men straight. If the Committee want to call these gentlemen and give them what is the equivalent of another trial, I do not see much good in it.

Mr. GOOD: I think it is very important to have these men here for this reason, that during their trial the enquiry would be confined to certain things.

Hon. Mr. FIELDING: It was very broad, Mr. Good.

Mr. GOOD: There is no doubt they will be able to give us information with regard to some points that are quite pertinent to the inquiry here and to the Bank Act that is under revision.

The CHAIRMAN: Let me ask you a question, Mr. Good. Do you not think that they are the last two people in all Canada to give us any evidence to assist us in relation to the Bank Act?

Mr. GOOD: I will not make up my mind in advance. I would like to have them here to question them first.

The CHAIRMAN: You had Mr. Edwards, the auditor, who acted for the Government and investigated the affairs of the Bank. What can they tell us that would be helpful to us? They would defend their course of action, of course.

Mr. GOOD: I presume if they were sworn here we could depend upon them as much as we could on any man. So far as Mr. Edwards is concerned, I asked him particularly as to the scope of his investigation of the Merchants Bank. He stated it was very limited. For that reason, I think it is in order, and I might say there is too much evidence already in this Committee of a desire to cover up things. If this sort of thing is to go on, I am afraid that a flame will be lighted that will burn across this country for some time.

The CHAIRMAN: I am sorry to hear you make such a remark. I do not believe there is any member of this Committee who wishes to hide anything, in regard to this unfortunate thing.

Mr. GOOD: Nobody was punished. Somebody did wrong. We do not know what to do about it. Now the effort is evident to keep the lid on.

Hon. Mr. FIELDING: But the men were tried and acquitted. The Court may have been wrong, but what better can you do? We might have our own judgment in the matter. The men were tried and acquitted. There was a vigorous prosecution. Rightly or wrongly, the men were acquitted.

Mr. GOOD: I might say very often Parliamentary Committees are sometimes better than Courts to get information.

Mr. WOODSWORTH: If I understand Mr. Shaw's motion rightly, it is not that we constitute our seances in any sense into a legal court. It is merely that if there was a big fiasco in the past ten years, it obviously shows certain weaknesses in the Bank Act.

Hon. Mr. FIELDING: It is the weakness of the human character.

Mr. WOODSWORTH: Some of us may think it is a weakness of the Bank Act that enabled them to get away with it. If we are trying to strengthen the Bank Act at this time, surely it is a reasonable thing to ask where the weaknesses are. We should try and protect the public from being exploited by some human weakness, and I think here is one case where apparently human weaknesses were able to take advantage of the Bank Act.

Mr. IRVINE: How are we to know, when we have an amendment that covers a weakness in the Bank Act, which permitted this thing to take place? The Minister of Finance has told us he does not know what the weaknesses are, and he does not know what happened, any more than the general public knows what happened. Now, you sir, asserted that we can get no information from these men who were most closely connected with the Merchant's Bank. If I might ask the question, now do you know that we will not get any information from them?

The CHAIRMAN: I would say that if you really wanted some information as to the causes of the downfall of the Merchant's Bank, you would get it from Mr. MacKenzie and Mr. Edwards, or from some of the people who investigated. The two persons whose names you mention were accused and tried and they would not admit there was any weakness at all.

Mr. IRVINE: These gentlemen could have been found not guilty under the law. The Bank Act may have protected them to do certain things, which they did, and which led to disaster, but still the Banking Act, if carried out similarly by other people, would lead to a similar disaster.

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The CHAIRMAN: There was something in that idea of mine, was there not, that they would not be very good witnesses?

Mr. IRVINE: Montreal is not far away. It will not cost much money; it will not take much time, and it will satisfy at least the demands of the public. It will also satisfy the banks to some extent. I believe it was Sir Edmund Walker who said he did not know why the bank failed, and he would like to know what the causes were. I believe it would be in the interests of the banks as well as of the public, and as well in our interest to make a good Bank Act if we had these gentlemen called. I cannot see why there should be any serious objection to it, and I would urge, being as much interested in the well-being of this Parliament, this Government and this Act as anybody else, that this resolution of Mr. Shaw's be adopted and that these men be called. We have now lots of time. We are going to carry on this Act in the best way we know how. Let us get these men here and find out what they know about the thing. If they know nothing, we are not any the worse off. There undoubtedly was something wrong some place. As far as I can see, there are only two possible explanations of it, possibly the third is as the Minister of Finance suggests. The first is that a great financial merger was carried out, which resulted in the Bank of Montreal swallowing the Merchants Bank. The second is human frailty, as the Minister suggests. There is the third, that of weakness in the Banking Act, which led to disaster. These men lived up to the Banking Act and could not be held by the courts to be guilty. These are the three possible solutions and I think we are entitled to know what is the proper answer. I am very much afraid of unrest. I detest unrest, and I am afraid of it. I believe if we fail to do this we shall very much stimulate unrest, because the public wants to know the truth of these matters. I conclude in all sincerity by urging that we call the witnesses of the disaster as indicated by Mr. Shaw, and also Mr. MacKenzie, if he has anything to give us.

Mr. W. F. MACLEAN: There is a pronounced feeling in this country against bank mergers, and it is getting more common. Where is it going to end? There will not be three banks left in the country. I can see three banks taking every occasion by means of mergers to get the bank accommodation in this country in a few hands, and to make a trust out of it and to make a combine out of it. There will be a bank combine—perhaps there is a bank combine now, but there will be a bank combine if there is going to be the greatest freedom in mergers. I have been reading in the Winnipeg papers, in connection with that, that bank mergers in this country must stop. I heard the other day—I think I mentioned it this morning, that a gentleman from Nova Scotia said “perhaps that is the reason why we are not having the prosperity we have had in our country. We have lost every bank we had in New Brunswick.” They were merged one into the other, or taken in, and they have disappeared. They have no bank of their own in New Brunswick, and the bank that they did have in Nova Scotia has gone to Toronto. It only wants a few more of these mergers and we will have a bank monopoly. There ought to be something done to prevent these mergers; an investigation of some kind. Witnesses of some kind may help to bring that about, and we will get a lead, as the mover of the motion says, to prevent these things in the future. Another suggestion is that the Government should have a system of examination such as they have in the United States. They should have bank examiners. These examiners, from the monthly statements, could soon smell out these things, and could stop them at the time and save things before the merger. The banks would be restored to their former usefulness.

Mr. POWER: Would it be possible to have this witness say on Friday? We would have the whole day and be done with it. We should have some

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finality about it; I do not think we should have an investigation into all the affairs of the Merchants Bank, and bring the Accountant and the books here. In the first place, three-fourths of the Members could not understand whether they were all right or not, and in the second place we would be here much longer than even our friend Mr. Irvine says.

Mr. CHAPLIN: I understand Sir Montagu Allen is out of the country.

Mr. POWER: Let us have Mr. Macarow, or someone that can tell us what, in their opinion, caused the downfall of the bank. I think we could do that in a day; I do not think Mr. Shaw wants it to last more than a day. I think we could give one day to it and I would suggest Friday.

Mr. GOOD: Why not Monday?

Mr. POWER: Why not Friday? You are not going to the races, surely?

Mr. GOOD: I think there will be a number absent on Friday.

The CHAIRMAN: Let us decide the main question first.

Mr. SHAW: I just want to make a few remarks in that connection. The Minister of Finance says that these men have been tried, and that we will be trying them again. Just what have they been tried for? They have been tried for violating a particular section of the Bank Act, in that they either made or caused to be made false returns to the Minister of Finance. That is all. Simply that, and nothing more. They were found not guilty of that. All that we want to do is to ascertain that facts in connection with the collapse, and in connection with the merger, which I think is highly important.

Mr. COOTE: Mr. Chairman, there is no amendment to the section of the Act referring to mergers of banks, and it seems to me that the people of this country are most interested in whether we are going to permit mergers in the future or not; I think there is no question about that. We might get some information regarding the last merger, and I think we have the right to get it. I would not say another word if I thought the Committee were going to allow these witnesses to be called; I think this Committee should, in justice to itself, and in justice to the public, allow these men to be called in connection with the merger of the Merchants Bank with the Bank of Montreal.

Mr. GOOD: Would Mr. Shaw include Mr. McKenzie's name in that list?

Mr. SHAW: Yes, I have no objection, although I think these are the Merchants Bank officers.

The CHAIRMAN: It is entirely for the Committee to decide.

Mr. POWER: Before voting I would like to know if Mr. Shaw will give us some assurance that we will not have the witness for more than a day.

Mr. SHAW: I am quite willing to do anything I can to expedite the matter.

On a show of hands, the motion was declared lost.

Mr. SHAW: I would like to have a standing vote.

The CHAIRMAN: I declare the motion lost. Why should there be a standing vote?

Mr. GARLAND: (Bow River) I think in a close vote of that kind, we are entitled to a standing vote.

On a standing vote being taken, the motion was declared lost.

The CHAIRMAN: The Committee will meet on Monday morning, gentlemen when we will try to deal with matters non-contentious.

The Committee adjourned until Monday, May, 28th, at 11 o'clock a.m.

EVIDENCE

MONDAY, May 28, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: At the close of our last meeting, we dealt with section 5, and we were just about to consider an amendment of Mr. Fielding's which is to be found at the foot of page 2 of the printed notices of motions.

Mr. GOOD: In glancing over the second and third editions of the printed amendments, I notice that some in the second edition are not included in the third edition.

Hon. Mr. FIELDING: Have they already been disposed of?

Mr. GOOD: Not that I know of. There are amendments by Mr. Hughes and Mr. Irvine on page 19 of the second edition, and while I have not looked very carefully into the third edition, I am wondering if they are included in the third edition.

The CHAIRMAN: I believe so, but we will ask the law clerk to verify that.

Hon. Mr. FIELDING: With regard to section 5, the amendment is a re-drafting of the section, without any material change. On reflection, we thought it would be convenient to have in the Bank Act a list of banks, as they now stand, their capitalization, and their head offices. The only effect is to include in the schedule the list of banks as they now stand, with the head offices, and the amount of capital.

Mr. W. F. MACLEAN: Paid-up capital?

Hon. Mr. FIELDING: Authorized capital.

Mr. W. F. MACLEAN: Should it not also state how much capital has been paid up, and is at the service of the public for banking purposes?

Hon. Mr. FIELDING: I do not know that there would be any grave objection to it. As a rule the authorized capital is the correct thing. The capital may be varied without coming to Parliament, but if anybody attaches importance to it, I would not object, though I think it is better as it stands.

Mr. GOOD: I think Mr. Maclean's point is worthy of consideration.

Hon. Mr. FIELDING: We will reserve the schedule to consider that point.

Mr. IRVINE: I am opposed to the ten-year charter; that is my objection.

Hon. Mr. FIELDING: We voted on that.

Amendment declared carried.

On section 88a.

The CHAIRMAN: This morning, I was asked by Mr. Sparks, of Ottawa, that he be allowed to say a few words on this section. He is present. Is it the desire of the Committee to hear him?

Mr. R. P. SPARKS called.

The CHAIRMAN: You might just state your business, Mr. Sparks, and whom you represent in making your statement.

WITNESS: I am here representing the Canadian Association of Garment Manufacturers. It is a national organization, including all branches of the clothing industry. The amendment to section 88a, I take it from the speech of the Minister in introducing it, was brought about largely by conditions in

[Mr. R. P. Sparks.]

this industry. The Bradford Chamber of Commerce was mentioned by the Minister as one who had protested against certain matters coming under section 88, and subsequently a gentleman representing certain British textile interests, appeared before this Committee and gave evidence. The amendment proposed is that all hypothecations under section 88 shall be registered.

Mr. HANSON: No. It is to give notice that the intention to give security shall be registered; quite a distinct difference.

WITNESS: The idea is that there should be a registry in the hands of the Receiver General of all those who are borrowing under this section, the idea being that this would be of some use from a credit standpoint, some guard to exporters to Canada as to the financial standing of those so registered. I have too much respect for the British traders' knowledge of business to think that that would be an advantage. As a matter of fact, in the clothing industry, which I may say is the largest industry in Canada—the production and distribution of clothing comes next to the production and distribution of food as a most important matter concerning the whole community—I would say that 90 per cent of the reputable firms in Canada are borrowing under section 88.

Mr. HANSON: Are you speaking for the manufacturers or for the retail trade?

WITNESS: I am speaking for the manufacturers. If the amendment, as it is, goes through, and if it is necessary for those to borrow under this section to register with the Receiver General, 90 per cent of the reputable people will be registered. There will be two groups who will not be registered—a comparatively small group who have sufficient funds to carry on business without borrowing under this section, and quite a large group of manufacturers, or traders who are not reputable, who have not sufficiently the confidence of the bankers to borrow under this section. They will not, of course, be registered. I have many cases in mind, because I am in close contact with the industry. There have been cases of loss incurred under this section 88, where the bankers have found that when the estate was wound up the security which they thought was there was not there; that is, they themselves were not able to get back their full loans under this section.

Mr. W. F. MACLEAN: Are these bad actors members of your Association?

WITNESS: Some of them are, but there are undoubtedly a large number of manufacturers who cannot borrow money to-day under section 88, and their names will not appear on the register. The names of reputable firms will appear on the record, so that it will really be a discrimination. It will certainly be of no advantage to anybody to know that a manufacturer in Canada is borrowing under this section because practically all the reputable manufacturers are borrowing; the record will be a record of the most substantial firms in Canada.

Mr. LADNER: What objection is there to a reputable manufacturer letting other people, with whom he has business dealings, know that he has borrowed under this section? Is that not your case, your objection?

WITNESS: I have read very carefully the evidence of the gentleman who came from Bradford, and I am familiar with the situation there. There is an impression among British traders that those who are borrowing under section 88 are weak financially. The whole tenor of the evidence of the gentleman from Bradford is to that effect. That is not true. If it were true, the amendment proposed would be an excellent thing.

Mr. W. F. MACLEAN: Did they not say that they would not be so ready to supply credits without this registration? Was that not their case?

[Mr. R. P. Sparks.]

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WITNESS: That is their case, but it is not a matter of fact.

Mr. LADNER: What objection is there to reputable people who have financial stability wanting to borrow under section 88? What is the objection to letting other people, with whom they are doing business, know of the fact that they are borrowing from the banks under section 88? If you are opposing that idea, what is the point of your case.

WITNESS: I have a clear case.

Mr. LADNER: What is the point of it?

WITNESS: I have a competitor, whose bank will not trust him with loans under section 88. His name would not appear on the record as a borrower, and my name would.

Hon. Mr. FIELDING: Wherein is the position changed by this amendment?

WITNESS: His position in the eyes of the British trader would be better than mine.

Hon. Mr. FIELDING: You said a moment ago that you had a competitor who did not register. Wherein is his position changed if he cannot borrow from the bank?

WITNESS: He could send an order to Bradford, to the same people I am dealing with, and they would wire to the Receiver General, "Please obtain information as to this man; is this man registered?" and they would reply, "No." The whole tenor of their case is that his financial credit must be perfectly good.

Some Hon. MEMBERS: No, no.

Mr. W. F. MACLEAN: We are not in that business of issuing certificates.

Mr. IRVINE: Is your objection to this that if the amendment goes through those disreputable traders could not carry on their business?

WITNESS: No, but there is a very large group of manufacturers in this country who, so far as the record in the hands of the Receiver General is concerned, will appear to have no credit.

Mr. W. F. MACLEAN: You do not want to get into that register?

WITNESS: I have no objection to the register.

Mr. W. F. MACLEAN: What is your objection?

WITNESS: The objection is that disreputable firms—

Hon. Mr. FIELDING: What is your suggestion as to changing this? Give us your reason. What change do you desire to make?

WITNESS: None at all. I think that section 88 has been of great advantage as it is to the three parties concerned. There are three parties, the bankers, the customers, and the creditors. I think it has been of more advantage to the creditors. The British representatives who appeared before you—I know because I have read the evidence, and I am familiar with conditions in Bradford—they are not fully seized with the importance of this section, or as to how it is working out in this country. It has been of great advantage to them without this registration. Registration is of no use to them; it is simply a record of those who are borrowing, from the credit standpoint. The record of liability is not given. There is no record of how much a man owes.

Mr. LADNER: They can find out.

WITNESS: They cannot find out how much he owes; they simply find out that he is a borrower.

Mr. LADNER: It puts them on their guard, and they know that something is not normal.

[Mr. R. P. Sparks.]

WITNESS: My contention is that it is a normal condition in this country to borrow under section 88. I have discussed this with the Bradford people, with Mr. Tulloch, who appeared before this Committee, and the Bradford people themselves recognize that the amendment, as it is, is useless. They have pressed for the amount to be specified because they think that that would be of some use. I think it would be very unfair, but I am not going to deal with that. I know that the British Agents' Association, who are represented in this country, and with whom Mr. Tulloch consulted—I will not give Mr. Tulloch's own view because it was given in private conversation—but they think that the amendment as it is is of no use.

AN HON. MEMBER: Do they mean that it does not go far enough?

WITNESS: It does not go far enough. It means simply another form to fill up, another detail which will be of no use. If I can be shown that it will be of any use from a credit standpoint, to know that a man owes money, I would say, put the amendment in. I can produce documents from Bradford bearing out that view.

MR. LADNER: Is not what they really want this: To carry the principle of registration in section 88a to sections 86 and 87? Then they say the notice will be complete. Is that not their point?

WITNESS: They do not ask for this. I am saying that they recognize--and you may get from Bradford any statement you like—I know that they recognize that it is of no use. The amendment as it stands, speaking from a standpoint of one who is dealing in credits, is absolutely useless. It is to a certain extent a discrimination against reputable firms in borrowing because it will put them in a worse position than disreputable firms who cannot borrow. There may have been some losses under section 88. The Merchants Bank case has been cited, which was absolutely unfair. In 99 cases out of 100 the operation of section 88 has been satisfactory to the banks, to the borrowers, and to the creditors. There have been a few cases of losses but a close analysis of these will show that the blame fell largely on those who sold to people whose credit was not sound. The Minister, in introducing the amendment, spoke about the recklessness of the British trader in granting credit. There is something in that. They were rather reckless, and they took losses. But I submit that section 88 has saved them many losses and prevented men who otherwise might have gone into bankruptcy from going into bankruptcy. It was actually a saving of losses, and the amendment as now put forward is useless, and is a discrimination against good reputable people. It is simply taking notice of a passing phase which has gone and puts us under the obligation for ten years of registering, which is not worth the twenty-five cent fee that we pay.

MR. WOODSWORTH: If this amendment were passed, how would the disreputable firms carry on if they could not borrow?

WITNESS: You can carry on business without borrowing from the banks.

HON. MR. FIELDING: If you have money enough.

WITNESS: There are many other better securities than those of the banks.

MR. SHAW: What do you mean by "disreputable firms"? Do you mean firms that are not financially sound?

WITNESS: I will illustrate. A firm that has assigned and which, when a bank comes to look for its security under section 88 finds that the security is not there.

MR. SHAW: You referred to the operation of section 88 from the standpoint of the English manufacturer, but what about the situation within Canada itself, where the people know the position of those borrowing, and have the means of securing references?

[Mr. R. P. Sparks.]

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WITNESS: I think that the British traders know now, since the visit of Mr. Tulloch that a record or registry under section 88 would be absolutely useless. They did think it would be of advantage but they do not think so now.

Mr. W. F. MACLEAN: You object to this registration? You are giving reasons but the fact is that your Association objects; you do not wish to register. You are talking about the other fellow, but your real reason is that you do not want to be registered?

WITNESS: I have given two or three different ones.

Mr. W. F. MACLEAN: Give us the straight one.

Mr. IRVINE: Are you representing the organized garment workers?

WITNESS: No, the garment manufacturers.

Mr. SPENCER: You have just told us that you do not mind being registered—

WITNESS: I have no objection to being registered.

Mr. W. F. MACLEAN: He has just said that he does not want the amendment, that he did not wish to be registered.

WITNESS: I say that the amendment is absolutely useless.

Mr. IRVINE: May I quote to you what Mr. Tulloch says?

“In the first place, I desire to press for incorporation in the Act of the principle of registration as outlined in the new section 88a. It is my strong opinion that the same will create greater stability than has hitherto been the case.”

Do you think that he deliberately told us what he did not believe?

WITNESS: No, but I submit that registration of the fact that a man or firm is a borrower under this section is entirely useless from a credit standpoint, because most of the reputable firms in Canada are borrowers.

Mr. LADNER: Will you tell us how it is useless? Give us a concrete case as to the futility of registration?

The WITNESS: In what way, that it is of no value?

Mr. LADNER: As to its disadvantages.

The WITNESS: I have different firms in mind, absolutely sound, but owing to the seasonal nature of their business there are times when they require additional capital. I am not going into it fully, but the claim is that it is a seasonal proposition; we will start to make our goods for spring in October; we will work along through October, November, December, January, February, until March, and then we will start to ship our goods. We may get up to the first of the year with our own funds, but when we want more funds, we pledge these goods. That is a very proper thing, to pledge the goods for loans to tide us over until such time as we get our funds back and we can recoup the banks.

Mr. HANSON: You would say that section 88 works to the advantage of the borrowers of this country, the manufacturers?

The WITNESS: Yes, to the advantage of the borrower.

Mr. LADNER: I started this, and I want to finish it. You have got to January, and you get a temporary loan. You have reached the point where you are going to borrow more money, and you have to register that; show us where the advantage or disadvantage is.

The WITNESS: We register that we have borrowed money for, say, three months. On the first of May we pay back this loan, but we are on the record for two years, as I understand the amendment.

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Mr. W. F. MACLEAN: Can the time not be shortened up, so as to get a release?

The WITNESS: There is no advantage in that.

Mr. LADNER: You started to tell us that this was useless. Let us find out where it is useless. Show the disadvantages and the advantages. You have named one, that you are registered for two years, but those who practise law know that they can find out whether you paid that loan off. Take the next step in the advantages or disadvantages. That is the only way to get down to brass tacks.

The WITNESS: You may be a borrower under section 88, and I want to sell you goods, and I inquire from the Receiver General if you have borrowed under section 88, and find that you have. That information is useless to me, because I myself have borrowed. I know a hundred people who have done that.

Mr. LADNER: Then you come to me to find out about it?

The WITNESS: No, I would not bother about it at all, because I know it is the practice of the country.

Mr. LADNER: If you wanted to do business with me, and you found that there had been a loan made, you would come to me to find out about it?

The WITNESS: I would do something before I discussed the question at all. I would do what any man would do, get the only thing which is of any value at all as a basis, and that is a balance sheet, to show the liabilities and the assets. Any responsible firm dealing in credit asks the customer for a balance sheet.

Mr. LADNER: That is an additional source of information, but limiting the question of the source of your information to this point of registration under section 88, if you found that I had registered, and having the desire in your own mind to sell me goods, you naturally come and find out more about that. In other words, the effect of the registration is to give you the notice which the law intends to provide.

The WITNESS: The notice is absolutely of no value.

Mr. LADNER: Show us how it is not.

The WITNESS: Because I know you have borrowed from your bank; that is all it shows me.

Mr. LADNER: Everybody is borrowing from the bank. That is no disadvantage.

The WITNESS: None at all.

Mr. LADNER: Where is the disadvantage?

The WITNESS: It is not a particular disadvantage or advantage, it simply leaves us where we were; it compels us to go through these forms, to pay our 25 cents, and in a limited extent it reflects on our credit, because other people do not register.

Mr. W. F. MACLEAN: Really, you object to the registration?

The WITNESS: No, I have no serious objection; if the amendment goes through I will register the same as others as wealthy or more wealthy than I am will do. But for ten years we will have to fill out these forms every time we want to borrow money.

Mr. LADNER: Would not the fact that all the good people register and the bad ones do not register—would not that fact of registration indicate that the firm was a good sound firm?

The WITNESS: But the Bradford people think it will indicate they are not good.

[Mr. R. P. Sparks.]

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Mr. LADNER: I am asking you from your point of view.

The WITNESS: No, because there will be some who are not as strong. 80 per cent or 90 per cent of the whole trade will be registered.

Mr. LADNER: 90 per cent will be registered?

The WITNESS: Yes.

Mr. LADNER: Within that 90 per cent, will it not be an advantage, that people can go to the registration office and find out, have some notice as to who the borrowers are?

The WITNESS: I can see no advantage.

Mr. LADNER: Can you see a disadvantage?

The WITNESS: I can only see it is tying us up to filling forms for 10 years.

Mr. LADNER: What objection have you to 88?

The WITNESS: That is simply adding more red tape, without any added value.

Mr. LADNER: Another great body of people come here and say it is an advantage.

The WITNESS: No, I do not think they did.

Mr. LADNER: The Bradford people did?

Mr. HANSON: No, they did not.

Mr. LADNER: Yes, they did.

The WITNESS: No, as a matter of fact—

Mr. IRVINE: Your plea is really in the interest of the Bradford people now, because under this clause, according to you, the poor firms in Canada would appear to have the best credit across the water?

The WITNESS: Yes, I think if it were eliminated it would be to the advantage of Bradford.

Mr. LADNER: Perhaps the Minister could explain to us if there is any such futility in such a provision. I always thought it was an advantage, but if 90 per cent of the trade is against it—

Hon. Mr. FIELDING: The purpose was to give a warning; any man who wants to make use of that can do so. It will be no mark of discredit to be registered under that act; the biggest concerns in Canada will do it. This is not only a Bradford matter, there are Canadians who have complained bitterly of this priority given to the banks. Many Canadian citizens have complained bitterly over the bank having that priority. Now, what we do is simply to say that anybody trading under that shall register, and the world shall know it. If, in the face of that, they want to lend money, they can go on and do it, but they get the warning.

The WITNESS: I have no serious objection; I was simply asked by a representative body of men, the largest industrial group in Canada, to put this view before the Committee, that it was useless and to a limited extent discriminated against a great many of them. I am very much obliged to the Committee for this opportunity.

The witness retired.

Mr. SHAW: I would like to submit a formal motion, as follows:—

“That the Chairman do forthwith report to the House, the action taken by this Committee in reference to the application to call before it

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as witnesses, Sir Montagu Allan, D. C. Macarow and C. C. Kippen, and that the Chairman do thereafter in due course seek the approval of the House to the action of the Committee in connection therewith."

I simply ask the Committee to direct the Chairman to report to the House the action taken.

Hon. Mr. FIELDING: You are giving a notice of motion?

Mr. SHAW: I did not suppose it would be contentious anyway. I am moving now that the Chairman do forthwith report to the House the action taken by this Committee in reference to the application to call before the Committee the witnesses in the Merchants Bank affair.

The CHAIRMAN: I think it is contentious, so we will take it up this afternoon.

Mr. IRVINE: I will second that motion.

Mr. GARLAND (Bow River): Why, after all, should the decision of this Committee be contentions or not?

Mr. HANSON: I rise to a point of order. This should be a notice of motion, as the Committee agreed some time ago.

The CHAIRMAN: I think you had better bring it up at the afternoon meeting anyway.

Mr. IRVINE: We did not settle that these things should be brought in by notice of motion; we settled that all amendments to the Act should be by notice of motion.

The CHAIRMAN: I would like to look into the procedure. We will adjourn now.

The Committee adjourned until 4 o'clock, p.m.

AFTERNOON SITTING

MONDAY, May 28, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

Mr. GOOD: What is the quorum for this Committee?

The CHAIRMAN: Twenty-one, I understand. I am waiting for the Minister who, I believe, is attending some meeting. Personally, I think we might adjourn. I think it was a mistake to meet to-day.

Mr. IRVINE: I think so too.

The CHAIRMAN: Is it the view of the Committee that we should adjourn?

Mr. HANSON: I am quite agreeable.

Some Hon. MEMBERS: Agreed.

The Committee adjourned until Tuesday, May 29th, at 11 a.m.

DISCUSSIONS

TUESDAY, May 29, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Please come to order, gentlemen.

Mr. W. F. MACLEAN: Before you proceed with the details of the Bill I would like to ask Mr. Ross a couple of questions bearing upon the point I raised yesterday. We were discussing yesterday the two gold reserves that we have in this country, and I would like to ask Mr. Ross this question. I understand you represent the Bankers' Association?

Mr. Ross: I am Secretary of the Bankers' Association.

Mr. W. F. MACLEAN: How long have you been in that position?

Mr. Ross: Six years.

Mr. W. F. MACLEAN: What were you before that?

Mr. Ross: I was Assistant Deputy Minister of Finance for ten years.

Mr. W. F. MACLEAN: Were you Assistant Deputy Minister of Finance when the central gold reserve was created?

Mr. Ross: I was.

Mr. W. F. MACLEAN: Did you draft that legislation?

Mr. Ross: I assisted in drafting it.

Mr. W. F. MACLEAN: You did not see any objection at that time to the creation of this second central gold reserve?

Mr. Ross: I did not.

Mr. W. F. MACLEAN: At the present time you represent the Bankers' Association, and six years ago you were the Deputy Minister of Finance?

Mr. Ross: Assistant Deputy Minister of Finance.

Mr. W. F. MACLEAN: Who was the Deputy Minister at that time?

Mr. Ross: Mr. Boville.

Mr. W. F. MACLEAN: Did you ever serve under the present Minister of Finance in that Department?

Mr. Ross: Yes.

Mr. W. F. MACLEAN: You were formerly connected with the Department of Finance for how many years?

Mr. Ross: Ten years.

Mr. W. F. MACLEAN: Since then—I am not saying this disrespectfully—you have gone into the service of the Bankers' Association?

Mr. Ross: Yes.

Hon. Mr. FIELDING: We could not afford to keep him.

Mr. W. F. MACLEAN: That is a point I was trying to bring out. You are in a much better position financially now than you were in the Department?

Mr. Ross: Somewhat better.

Mr. W. F. MACLEAN: That is all I desire to ask. I wanted to bring out that the present Secretary of the Bankers' Association was some years ago in the service of the Government as Assistant Deputy Minister of Finance, that he was associated with the Government when the second central gold reserve was created, and that he never objected at that time to the second central gold reserve being created.

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Mr. Ross: It was not for me to object; I simply drafted it on the Minister's instructions.

Mr. W. F. MACLEAN: That is the point I wish brought out. Mr. Ross can certainly see that I am not in any way casting any reflection on him, but I did wish to get out the history, if possible, of how this second central gold reserve, which to my mind is absolutely unnecessary, is against the public interest, and against the national reserve system that we have, was created.

The CHAIRMAN: When we adjourned yesterday we were dealing with section 156a of the Bill. Mr. Fielding moves that 156a and 156b be struck out, and that there be substituted a new subsection to section 156 to be numbered 3. You will find the amendment on Page 20 of the printed amendments.

Hon. Mr. FIELDING: This clause, Mr. Chairman, has reference to the starting of private concerns taking deposits. We are all agreed that we ought to try to do something to put a check upon it. It was suggested yesterday that there might be some licensing system. The original draft was that we should allow licenses to be issued by municipal authorities, but that seemed to be unworkable. Take it all in all, I see difficulty in adopting a licensing system. I think that if we adopted the clause as it is now composed, it would check most of those cases, or at least would be a step in the right direction. I have had difficulty in drafting a clause, and this is not perfect, but it provides that when the attention of the Minister of Finance is drawn to anybody receiving deposits, an investigation may take place, and if the party is not found to be straight and fair we can stop him.

Mr. W. F. MACLEAN: There is no criminal penalty attached?

Hon. Mr. FIELDING: Yes, if he persists.

Mr. W. F. MACLEAN: Under what Act?

Hon. Mr. FIELDING: Under this Act.

Mr. W. F. MACLEAN: You bring him within the scope of the Bank Act?

Hon. Mr. FIELDING: Quite so. If the Minister's attention is drawn to the matter and the party persists against the wish of the Department, then proceedings can be taken.

Mr. W. F. MACLEAN: I am glad to hear that statement from the Minister, that he is bringing those offenders, if they are offenders, within the scope of this Act, and under the penalties within the scope of this Act.

Discussion followed.

The CHAIRMAN: There are several verbal changes in the amendment.

"The Minister may, upon the application of any interested person, require that any person who receives money on deposit or received money"—

the word "received" should be "receives." Then on the next line

"Either by or under the authority of a statute." That should be changed to read "By or under the authority of a statute of Canada, or province thereof." Further down on the line commencing

"May after due consideration of such report," put the words "return or report," which makes it correspond with the previous line.

Mr. GOOD: I would like to know something as to the expenses of following out the procedure indicated in this amendment. It involves sending a party to examine each particular case under examination. What expenses would be involved in that case?

Hon. Mr. FIELDING: The expenses would have to be charged upon the department. I think it would not occur very often. The clause contemplates

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the selection of an auditor from the described list of auditors who may be sent to make an investigation. I do not think it would occur very often, but certainly whatever expenses would be attached to it would be borne by the Government.

Mr. GOOD: I had a case in mind cited the other day, when it was suggested that there might be some investigation in Vancouver, and it would be very expensive to send a man from eastern Canada. Whether or not under such circumstances arrangements might be made to have the investigation made locally—

Hon. Mr. FIELDING: There are accountants in Vancouver who would be eligible under this Act.

Amendment declared carried.

On section 61, subsection 4.

Mr. W. F. MACLEAN: I wish once more to register my objection to the creation of two gold reserves in this country, one under the control and custody of the Federal Government and the other under the control of the banks. The two systems do not go together. If we are to have a national system of banking, we must have a national reserve system, and it has got to be under the control of the Government. We cannot have two such reserves in the country. If any one can point to an instance in any other country, or to what follows from that, a double note issue, a bank note issue and a Federal note issue, I might pay some attention to it. But I challenge the Minister of Finance to justify the continuance of a double system of gold reserves, and a double system of note issues. All the room we have in this country is for one national note issue and one national reserve. Let us treat the banks most generously in the way of rediscounting or of making advances to them for excess issues when they are necessary. Give them everything of that kind; I do not object to that. But I do object to the creation of this double system. I brought out this morning by the questions which I asked Mr. Ross that when he was assistant Deputy Minister of Finance he helped to create this new reserve, and he has not given any reason for it. Two reasons have been given, one that the banks wanted advertising. I would like to know if the ex-Minister of Finance would subscribe to that or whether he thinks there should be a double barrelled system of reserves and a double system of note issues. It has been suggested that the banks get the benefit of the notes that are lost, and these represent a considerable amount. This double system of reserves and note issues is not in the public interest. Perhaps it is in the interest of the banks; at all events, I have not heard a reason for it, and I would like somebody to give me a reason why there is this double barrelled system in this country.

Mr. MCCREA: I do not know whether it is necessary to have a double barrelled system of gold reserves or not, but I do not think it is necessary to have a double barrelled repetition of the same argument. We have sat here for the last two days, and have had the same argument repeated every ten minutes. I think it is about time that we proceeded to do business and tried to get through this Bank Act in a straight and intelligent way, so that we may have an Act that will be useful.

Mr. W. F. MACLEAN: I think the honourable member is addressing the Minister of Finance and the Committee; he is not addressing me, I hope.

Mr. GOOD: Yesterday I suggested that it would be a good thing if one of those trustees appointed by the Government were here so that we could learn from him something about this matter.

The CHAIRMAN: What good would it do? Would you have him tell you about how he opens the door, how he protects the reserve? That is about all he could tell you.

Mr. IRVINE: I think this stood over yesterday for the purpose of having some one tell us about it. No one has yet given us a reason. Some one should tell us about it. No one has yet given us a reason. Some one should tell us tell us what we are voting on.

The CHAIRMAN: It is not difficult to understand what it means. It means that the banks can carry gold or Dominion notes, which ordinarily represent gold, to a central reserve, and they are put in the hands of trustees. The banks are allowed to issue their notes against that deposit. I suppose it is of some convenience, and the note holders are protected. The system has been built up; it has been established for ten years. There are \$55,000,000 at present in the central reserve, and as the system seems to be working well, it would be a mistake to change it without some reason. Perhaps the burden is on the other side.

Mr. IRVINE: I would be satisfied if you would change the fourth clause so that the Minister might appoint three trustees and the Association one.

Hon. Mr. FIELDING: It is a matter of arrangement between the Government and the banks, and I would not like, offhand, to accept an amendment of that sort. If it is desired to have a serious amendment in that direction, I would prefer that notice be given, and let us consult the banks about it. They are partners in this transaction. It takes two to make a bargain, and two to change it. The only reason I have for supporting this is that it is there; it is part of the banking system. I never saw any great need of it, but there is no harm in it, and I do not see why we should not let it stand there.

Discussion followed.

On a vote being taken subsection 4 of section 61 was declared carried.

Mr. GOOD: Mr. Chairman, may I ask in that connection what is done as to that excess? Perhaps Mr. Saunders or Mr. Ross could tell us if the amount on deposits is more than is needed to justify the excess circulation, and it is relieved or released, what is done with it, is it taken out of the reserve or simply set apart?

Mr. SAUNDERS: Some of the banks withdraw it, and others leave it there. If they do not require it in their general business, they leave it in the general fund for their own convenience.

Mr. COOTE: I wonder if the Deputy Minister could tell us just in a few words what this subsection 6 means. It is a little hard to grasp.

The CHAIRMAN: It is very hard, Mr. Coote; it is a long-winded section.

Hon. Mr. FIELDING: It simply gives them the right to issue their circulation against the gold. That is the whole thing in short, but the lawyers take a long time to tell us.

Mr. KELLNER: Does it not also keep the banks from issuing too large an amount of currency? If they issue over what is specified in the gold reserve, their interest in the gold reserve, they are violating another clause of the Act?

Hon. Mr. FIELDING: Yes.

Mr. KELLNER: I would like to ask the Minister if he ever thought it would be desirable to make it compulsory for the banks to keep their notes in circulation as long as there was desirable security.

Hon. Mr. FIELDING: They do that under the Finance Act. I do not think we should allow them to issue anything more than the amount stipulated in

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that act; that is, the amount of their original capital. Of course, Mr. Kellner is aware of what is called the seasonal extension when they are allowed to issue an excess of circulation to the extent of 15 per cent of their combined paid up capital and reserve. That is what used to be called the emergency circulation. I think apart from that it would be unwise to give the banks any further powers.

Mr. KELLNER: I am afraid you do not get my question at all. Could it be left to their discretion as to whether they should have money in circulation at all? Is it advisable to let them call in their money?

Hon. Mr. FIELDING: It is their money, I do not see how we can stop them.

The CHAIRMAN: Gentlemen, it is not quite 1 o'clock yet, but Mr. Shaw gave notice of a motion yesterday, and I think we ought to give him an opportunity now.

Mr. SHAW: Mr. Chairman and gentlemen, I gave notice yesterday that I proposed to move the following:

"That the Chairman do forthwith report to the House, the action taken by this Committee in reference to the application to call before it as witnesses, Sir Montagu Allan, D. C. Macarow and C. C. Kippen, and that the Chairman do thereafter in due course seek the approval of the House to the action of the Committee in connection therewith."

I may say that I did not anticipate that the motion would be contentious, because all I ask is that the Chairman should make a report to the House in connection with this matter. I think there is power on the part of the Chairman in the reference made by the House to this Committee, to report from time to time. Not only do I ask him to report, but I suggest also that he should seek also the concurrence of the House in the action taken by the Committee.

The CHAIRMAN: That would be peculiar, Mr. Shaw, I think, that latter part.

Mr. W. F. MACLEAN: It would allow the question to be brought up.

The CHAIRMAN: It would be brought up in another way.

Mr. SHAW: To put the matter perfectly clear, I want to bring the matter before the attention of the House now. I want to do it at this particular time so if the House decides that these witnesses or any witness in connection with this matter can be heard, then there will be an opportunity to have them here before the Committee closes its deliberations. That is all I have to say, it is simply asking the Committee to instruct the Chairman to do now what will undoubtedly be his duty subsequently, in order that the matter may be brought up in the House and there discussed and if necessary our action can be approved, or the Committee may be instructed to call these witnesses, or any other such instruction as may be necessary.

Hon. Mr. FIELDING: We have had decisions on a number of questions in this Committee; and I confess I can see no reason why we should select one particular decision and put that to the House. I think the course of wisdom would be to expedite this bill and lay the whole bill before the House and I do not see why we should select one particular part and say we will report that to the House.

Mr. SPENCER: The vote taken on this question was a very close one, and most important in the opinion of the public, and that is the reason I am supporting it.

Mr. GOOD: Mr. Chairman, I took some interest in this matter the other day, and it seems to me that if the suggestion now made by the Minister of

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Finance is concurred in, that the only thing that could be done, in case the House did not agree with the policy adopted by this Committee would be for the matter to be sent back to the Committee with instructions to interview these men whose names were mentioned. Now, it does seem to me that while I confess there is some sense in the suggestion made by the Minister of Finance, that there is no reason why we should pick out one question rather than others, it does seem to me this is somewhat peculiar, and if we are going to discover anything about the Merchants Bank affair, then we ought to do it now rather than after the bill goes to the House. I submit it is a very fair proposition to have the matter settled now rather than later.

The CHAIRMAN: What was the motion originally? What was the purpose?

Mr. SHAW: The purpose of the original motion was in order that the Committee might be enlightened on the Merchants Bank collapse and more particularly, to my mind, although I did not limit it to that necessarily, the circumstances under which the merger took place with the Bank of Montreal. Now, there are some sections in the Bank Act dealing with the question of mergers and combinations of banks. There is no limitation placed upon that except that the approval of the Minister of Finance must be secured. Now, my suggestion is that if we can ascertain the facts and circumstances in connection with that merger, it may be that we will want to put in the Bank Act certain safeguards and limitations, with regard to matters of that kind. I think this is an appropriate time to do it. Now, as the Minister says, there may be other matters which probably should be referred to the House at this time. I have no objection; if there is any other matter that the Minister wants included in that, I have not the slightest objection to it.

Hon. Mr. FIELDING: I include the whole bill.

Mr. SHAW: The whole bill is not yet through, and we cannot make a report on that. I am surprised that anybody should take objection to this motion, because it is a matter of some interest and of considerable importance. I want to have the issue put up fairly to the House in order that they can decide without any other question of any other provision in the Bank Act, or any other cross-current that might perhaps mitigate somewhat from the discussion of the question at issue.

Mr. WOODSWORTH: This seems to be a very reasonable suggestion. When Mr. Shaw first proposed calling these witnesses, the procedure was objected to by Members of this Committee as being rather outside the scope of our inquiry. It was stated that this was not a court, that this matter had already been taken up, that the matter had already been definitely disposed of. Those were the objections raised to calling and hearing these men, and I presume it was on these grounds that many voted in deciding that they would not be called. Now, that is on quite a different basis from the ordinary amendments which we have been considering here. It seems a very reasonable thing that we should go back to the House and ask whether, in the opinion of the House, such matters as the Merchants Bank failure should be considered by the Committee. We have, of course, before us, the Bank Act; we had specifically referred to us Mr. Irvine's motion with regard to credit; we did not have any other matter of reference, but here is a matter that has subsequently come up, and this would seem to be the reasonable way of getting the decision of the House.

The CHAIRMAN: If Mr. Shaw's resolution should carry, I would like to suggest an amendment to the form, but that is not important now.

On a show of hands, the motion was declared lost.

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Mr. SHAW: I think I am entitled to have the names taken in connection with the division in a Committee.

The CHAIRMAN: Do you want the names?

Mr. SHAW: Yes, I think I am entitled to have a recorded vote.

The CHAIRMAN: As the Members' names are called, they will answer Yea and Nay.

On the names being taken, the amendment was declared lost. (See pp. 59, 60.)

The CHAIRMAN: The Committee will meet to-morrow morning at 11 o'clock a.m.

The Committee adjourned until Wednesday, May 30th, at 11 o'clock a.m.

DISCUSSIONS

WEDNESDAY, May 30, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

Consideration of Bill No. 83 resumed.

On Section 56, shareholders' audit.

The CHAIRMAN: There are a few amendments to this section suggested by the Minister of Finance.

On subsection 1.

The CHAIRMAN: Mr. Fielding moves (Page 4 of the printed amendments) an amendment striking out subsection 1 and substituting therefor the following:—

"(1) The affairs of the bank shall be audited by two persons, residing in Canada, each one of whom shall be a public accountant who has for at least six years preceding the date of his appointment, as hereinafter provided, practised his profession in Canada, and who shall also be a member in good standing of an Institute or Association of Accountants incorporated under the authority of the Legislature of any province of Canada."

Hon. Mr. FIELDING: The difference is not very material. In the Bill as drafted, provision was made that those accountants must be members of the Dominion Chartered Accountants' Association. We found that while there is a Dominion Chartered Accountants' Association, it is really made up of provincial organizations; and we thought that any chartered accountants' organization authorized by the Legislature of any province was entitled to respect and should be treated accordingly. The other point was that the accountant had to be practising his profession in a city which was the head office of the bank. On further reflection, we thought that there is no just cause for that; so long as he has been practising his profession bona fide for a reasonable time as a member of any chartered accountants' organization in Canada, that is all we can ask for.

Mr. EDWARDS: There is this difference between "public accountants" and "chartered accountants": A man may be a chartered accountant and yet not be a public accountant. He may be a chartered accountant, for instance, and be employed by somebody. "Chartered accountant" refers to the tech-

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nical qualifications of the man; "Public accountant" refers to the occupation that the man is carrying on. That is to say, if he is a chartered accountant he may be employed by another firm, and he is not a public accountant. But if he has an office and is practising, doing business with the public as a lawyer or doctor does, he is a public accountant.

Mr. SHAW: I suggest that the word "public" be struck out, and the word "chartered" substituted.

The CHAIRMAN: It is moved that the word "public" be struck out; is that carried?

Carried

Clause as amended carried.

Subsection 2 of Section 56.

Hon. Mr. Fielding moved an amendment

"(2) By striking out subsection 2 and substituting therefor the following:

"(2) A list or lists shall be furnished to the Minister and also to the Association by each such incorporated Institute or Association of Accountants on or before the thirty-first day of July, nineteen hundred and twenty-three, and thereafter on or before the thirtieth day of June in each year, of all members of their corporation in good standing whose names are entitled to be included therein as determined by the provisions of the last preceding subsection together with their addresses and the names of the firms, if any, of which they are members, and such list or lists shall be certified under their corporate seals respectively."

Hon. Mr. FIELDING: In the original clause the lists were to be furnished by the central association; now, they are to be provided by each of the provincial associations.

Mr. CASGRAIN: I suppose the word "association" to which lists have to be furnished means the Bankers' Association?

Hon. Mr. FIELDING: Yes.

Hon. Mr. Fielding's amendment declared carried.

On subsection 3 of section 56.

The Chairman moved that subsection 3 be struck out.

Motion declared carried.

On subsection 4, section 56.

Hon. Mr. Fielding moved an amendment as follows:

"By striking out subsection 4 and substituting the following:—

4. The Minister may, not later than the thirtieth day September next following, remove from such list or lists the name of any person of whose appointment to be an auditor of a bank he may disapprove."

Amendment declared carried.

On subsection 5, section 56:

Hon. Mr. Fielding moved an amendment as follows:—

"By striking out subsection 5 and substituting the following:—

5. The Minister shall, as soon thereafter in each year as may be convenient, cause to be inserted in two successive issues of the Canada

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Gazette, a public notice containing the names and other particulars of persons included in such list or lists and not removed therefrom by the Minister, and the persons included in such published notice shall be deemed qualified for appointment as auditors of a bank."

Amendment declared carried.

The CHAIRMAN: There is a motion that amendment No. 9 be discharged from the Order Paper.

Motion declared carried.

The CHAIRMAN: There is a motion that amendment No. 11 be discharged from the Order Paper.

Motion declared carried.

On subsection 6, section 56.

Hon. Mr. FIELDING moved an amendment as follows:

"By striking out subsection 6 and substituting the following:

6. The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank; but if any person has acted for four years in succession as Auditor of the affairs of any one bank, or if any member or members of the same firm have either or in the aggregate acted for four years in succession as Auditor or Auditors respectively of the affairs of any one bank; such person or any member of such firm shall not be again appointed to audit the affairs of such bank until a further period of one year shall have elapsed, provided, further that one such person or any member of one such firm may be appointed during the two years next ensuing after the passing of this Act."

Hon. Mr. FIELDING: The object of that is, that the banks claim, and many people will claim that the longer a man serves as an auditor the more experienced he is. The other side of the story is that you want to give the public assurance that the audit is independent and if I may use the illustration used on a previous occasion, the British Army will not allow a regiment to stay too long in one place, because they get used to it, and further, the Methodist Church will not allow a man to stay too long a time in one place. I think, after all, we are trying to bring this in in a form suitable to the public, to give the public an assurance that the audit is a good one, and we think it would be better, if a man has served this period, it would be better to have him step out and have fresh blood come in. I think the intimation that the old auditor steps out and the fresh blood comes in is an assurance to the public, after all, and that is what we are driving at.

The CHAIRMAN: I forgot to call the attention of the Committee to the fact that Mr. Hanson has an amendment before us, the effect of which is to strike out all the words of Hon. Mr. Fielding's amendment, after the word, "bank," in the fourth line.

Mr. HANSON moved an amendment to Hon. Mr. Fielding's amendment, to strike out all the words after the word, "bank," in the fourth line thereof.

Mr. GOOD: Would the two auditors act together, or independently?

The CHAIRMAN: We might hear Mr. Edwards on that point.

Mr. EDWARDS: What would probably happen would be that the bulk of the work of auditing the affairs of the bank would be performed by subordinates, and in considering the essential matters, which are of sufficient importance

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to come under the personal consideration of the auditors, the auditors would sit down together to discuss and arrive at conclusions with reference to those matters. I think the two auditors would act together.

The CHAIRMAN: Mr. Hanson proposes to strike out all the words of the proposed amendment after the word "bank" in the fourth line.

Mr. GOOD: Could we have the opinion of Mr. Edwards as to whether it is advisable to have two independent auditors and also to have a confidential statement submitted to the Minister as to the affairs of the bank.

Mr. EDWARDS: The auditors, whether they are one or two, must certify to the balance sheet of the bank. It is wise for them to confer as to the essential facts, because one auditor may not comprehend all the facts and the other one may have a point of view; and by comparison they arrive at a competent conclusion. There is very little danger of two competent auditors arriving at a different conclusion on the same set of facts. The principles of judgment are so well defined that there would not be very much difficulty. I would think they would have to confer to a certain extent in order to arrive at a conclusion that the balance sheet of the bank was one that both of them could sign.

Mr. GOOD: What is the value of having two auditors in a case like that?

Mr. EDWARDS: If the auditors belong to the same firm, what would happen would be what has happened before now. One of the principals of the firm would leave the whole matter to the other one and adopt without investigation the conclusions of his partner. They are commonly interested, and they have confidence in one another. The one will underwrite the other. The value of two auditors selected from different firms is that neither one is accountable to the other or is bound to accept the conclusions of the other. Each brings his own independent judgment to bear on the question at issue, and if they arrive at a conclusion on the subject, it is likely to be a better conclusion than if the conclusion were arrived at by one auditor or two partners.

Mr. MARLER: I would urge that one auditor be not changed, and I would like to see the clause redrafted to provide for that. One auditor might remain if the shareholders thought fit, while the other auditor would be changed compulsorily. In that way, there would be a check by one auditor on the other, and you would get greater efficiency. I would ask Mr. Hanson to consider that point.

Mr. HANSON: I have no objection to giving that further consideration.

Hon. Mr. FIELDING: The clause as it stands in my amendment provides that the two will not be changed at the same time. You put it in the hands of the shareholders to appoint one for two years, and the other for a period not exceeding four years. But I am prepared to accept the suggestion to hold the clause over and have it redrafted.

Subsection 6 of Section 56 allowed to stand.

On subsection 8, Section 56.

The CHAIRMAN: Mr. Fielding moves the following amendment.

"(7) By striking out subsection 8 and substituting therefor the following:

8. The remuneration of auditors shall be fixed by the shareholders at the time of their appointment and in the event of any vacancy and the appointment of another auditor under the next preceding subsection, the remuneration so fixed shall be divided between them as the directors shall consider just and reasonable."

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The CHAIRMAN: In the original clause the remuneration was to be divided according to the length of time each auditor acted.

Hon. Mr. FIELDING: This allows the directors to divide the money as may be found convenient.

Subsection 8, Section 56 carried.

On Section 56, Mr. Woodsworth moved the following amendment:

"10. That section 56 be amended by adding thereto the following subsections:—

'(17) The Governor in Council shall appoint a competent person who shall be an officer of the Government with the title of Government Auditor, whose duty shall be to examine all reports of auditors made under this Act and require all such auditors to report to him upon the adequacy of the procedure adopted by the bank for the safety of its creditors and shareholders, and as to the sufficiency of their own procedure in auditing the affairs of the bank, and he may enlarge or extend the scope of the audit, or direct that any other or particular examination be made or procedure established in any particular case, as the public interest may seem to require.

'(18) The Government Auditor shall have all the powers of inquiry with respect to the duties to be performed by him conferred upon commissioners appointed under the Inquiries Act.

'(19) The Government Auditor shall annually make report in writing to the Minister of all examinations and inquiries made by and directed to be made by him and his findings and recommendations in respect thereto, and such report shall be laid before Parliament within twenty-one days from the commencement of each session thereof."

Discussion followed.

The Committee adjourned until 8.30 o'clock p.m.

EVENING SITTING

WEDNESDAY, May 30, 1923.

The Select Standing Committee on Banking and Commerce resumed at 8.30 p.m., Hon. A. K. Maclean, the Chairman, presiding.

On subsection 6 of Section 56.

The CHAIRMAN: Has anyone succeeded in drafting an amendment?

Mr. MARLER: Yes, Mr. Chairman. I did not draft it myself; it was drafted by another excellent gentleman, and is quite acceptable, so far as I am concerned. I have submitted it to Mr. Good, but I have not had an opportunity of submitting it to Mr. Hanson.

Mr. MITCHELL: I gave him the substance of it, and he approves.

The CHAIRMAN: Would you please read the amendment, Mr. Marler?

Mr. MARLER: (Reads).

"6. The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank; but if the same two persons, or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any one bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed."

Hon. Mr. FIELDING: What is the effect of it?

Mr. MARLER: That one auditor may be kept on continuously—

Hon. Mr. FIELDING: There will be one constantly—

Mr. MARLER: Yes, but there is to be a separate auditor, a new man entirely, from another firm for two years. The second auditor will act as a check on the first.

Mr. COOTE: Are you going to carry on without a quorum?

Mr. CHAIRMAN: I understand that a quorum is present.

Mr. COOTE: I have a motion which I wish to make. I wish to give notice of an amendment, the effect of which would be to limit the amount of any one loan which may be made by a bank.

Hon. Mr. FIELDING: To any customer?

Mr. COOTE: Yes. I would also like to move that Sir Frederick Williams-Taylor and Sir John Aird be called again before the Committee. The particular purpose which I have in mind is to get some information from these gentlemen, before we come to the clauses or amendments limiting the banks to an interest charge of 7 per cent. I would like these men to come prepared to give us the expenses connected with running one of their smaller western branches where they claim they cannot carry on at 7 per cent. I think it is quite necessary that we should have some definite information regarding the operating expenses, and the income of those offices. I do not think that the statements they have made here should be taken for granted. I would also ask that they come prepared to give us a more definite statement as to the amounts of their past due loans and their losses, which they claim were sustained in western Canada in comparison with other provinces. I think this is a very important matter, and I think, Mr. Chairman, that when those gentlemen were here you yourself stated that they would be called again before the Committee. With the evident intention which seems to exist to rush the business of this Committee—

The CHAIRMAN: We are not rushing anything.

Mr. COOTE: I wish to ask that they be called now so that the information we can get from them will be of some use in determining what shall be done with several of the amendments now before the Committee.

Mr. GARLAND: I would like to support Mr. Coote's motion. I think we really have not had very much information from the bankers. When they were here we rather discussed the basis, function and control of credit in connection with the Bank Act.

The CHAIRMAN: That is not correct. Regardless of the merits of your motion, they did not spend any time on that.

Mr. GARLAND: I was here quite a little during the investigation, and by far the greater part of the investigation was carried on in respect to that question. It is true that there were some questions asked relating to the Bank Act, notably by Mr. Ladner in regard to Federal loans in the United States; but we have not had an extensive examination of the bankers such as we ought to have if we are going to do justice to this Act.

The CHAIRMAN: When shall we deal with this motion?

Some Hon. MEMBERS: Now.

The CHAIRMAN: Your notice of motion, Mr. Coote, goes as a matter of course. The other motion is that Sir Frederick Williams-Taylor and Sir John Aird be subpoenaed to appear before the Committee to give evidence particularly on the question of interest rates.

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Hon. Mr. FIELDING: And the cost of running a branch.

Mr. COOTE: I would like to explain to the Committee what I am trying to get at. In the town of High River in my constituency, which has a population of about 1,200, there are five branch banks, and I would like the heads of those banks to tell us what it costs to run one of these branch banks. I am perfectly satisfied that there is no need for five banks in that town—I am not advocating that they be closed—but I think the Committee is entitled to have that information. If we are to have any witnesses, it seems to me that that is one of the most important things upon which we should be informed. I do not see why they should not come here and give us the expense of running one of those branches.

The CHAIRMAN: I am not opposing your motion, but it is fair to remark that the bankers were here and might have been asked this question. As a matter of fact, they were questioned on that very point.

Mr. COOTE: There were gentlemen who wanted to ask this question, and you yourself stated that the witness would be back again. I think you will find that in the evidence.

Hon. Mr. FIELDING: I rather agree with you that there is no need for five banks, but I thought that competition by the banks was desired by the people.

Mr. GARLAND: They would be, if there was any real competition.

Hon. Mr. FIELDING: There is competition.

Mr. GARLAND: I cannot agree with you. I know from personal knowledge that there is no competition whatever between the banks. The rates are all fixed. You go to one bank and get a fair rate, and if you go to another bank you get the same rate. If you are turned down by one manager, and you go to another in the same town he will not give you a loan; you have to make application to the superintendent at Winnipeg or Edmonton.

Hon. Mr. FIELDING: If the banks were reduced to one, there would be real ground for the complaint as to a monopoly.

Mr. GARLAND: There is no competition, I can assure you of that.

Mr. COOTE: I would not like to agree with my friend Mr. Garland; I would not like to say that there is no competition. In some places there may not be; in other places there is. But it seems to me that it is not a question of competition. What I want to get is information from those men so that the Committee can decide for themselves whether or not we would be safe in limiting the banks to any fixed rate of interest.

Hon. Mr. FIELDING: Or in limiting them to a number of branches in any town?

Mr. COOTE: No, I am not pressing to limit them. I believe in competition.

The CHAIRMAN: What is the view of the Committee? Is there any objection to those two gentlemen being called?

Mr. BAXTER: Could not the questions be written out and sent to those gentlemen and the answers mailed back? We have a great deal to do, and the information desired would be contained in their books.

The CHAIRMAN: One of the reasons for Mr. Coote's request is that they should give their total losses in the West.

Hon. Mr. FIELDING: The cost of running a branch?

The CHAIRMAN: He went further than that.

Mr. COOTE: I would like to ask those questions, and I thought that if I did not state them now they would say that they did not know.

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The CHAIRMAN: I understood you to say that you wished to question them upon their losses. Do you mean in the prairie provinces?

Mr. COOTE: I want a comparison between the prairie provinces and the other provinces, to give them an opportunity to substantiate what they said, or the inference from what they said that they had an undue percentage of losses in the West.

Hon. Mr. STEVENS: I would remind the Committee that both Sir John Aird and Sir Edmund Walker were very carefully questioned on this point.

The CHAIRMAN: They were all questioned on this point.

Hon. Mr. STEVENS: And one of the answers given I recall distinctly, was that they would submit the figures if the Committee insisted upon it. But both of them, or at least one of them declared that it would very seriously prejudice the financial standing of—I think they mentioned Alberta in particular—if they did so. I know that my own view was that it was wholly inadvisable to press the point. Certainly there was every opportunity of questioning those gentlemen on the subject, and they were questioned, as the evidence will show.

Mr. COOTE: You do not mean to tell me that they gave us any concrete idea of the amount of losses they had?

Hon. Mr. STEVENS: I can show you their answer, and I notice that the questioner subsided after the answer.

The CHAIRMAN: What do you mean by their losses? Two of them stated that the public would be shocked if they were to state their losses. There was ample time for any one in the Committee to enlarge the question if they wanted to.

Mr. CHAPLIN: If the Committee decides that these gentlemen be asked to come here again, I think that the manner or matter of the questions should be made clear. We do not want to have a repetition of what took place before. Personally, I think it would be a good thing if these gentlemen were to come here to show some of the losses that have been sustained in the Northwest. I think that any of those gentlemen could give twenty or thirty instances of the worst losses that ever a bank sustained. I know that a bank of which I happen to be a director could furnish a statement of such losses that would surprise the Committee, and might be very illuminating to some gentlemen from the West.

The CHAIRMAN: You have heard Mr. Coote's motion that Sir John Aird and Sir Frederick Williams-Taylor be recalled.

On a vote being taken the motion was declared lost.

Mr. SPENCER: A motion was passed by this Committee early in May authorizing the calling of W. T. Baker of Toronto as a witness. My understanding at the time was that it was not quite convenient to call him then, but considering the pace we are making with the amendments, as Mr. Baker is distinctly a technical man and might be very useful to this Committee. I therefore move that he be subpoenaed to appear as possible next week.

Mr. GOOD: If it is necessary to second the motion, I will be glad to do so.

The CHAIRMAN: Carried.

Mr. BAXTER: I question whether it is carried.

The CHAIRMAN: All right then let us take a vote.

Mr. GARLAND: I thought, Mr. Chairman, you declared the motion carried.

The CHAIRMAN: I did, but there seems to be some protest. I am trying to do the best I can. Those in favour of Mr. Spencer's motion will please hold up their hands.

APPENDIX No. 2

An Hon. MEMBER: What is the motion?

The CHAIRMAN: Mr Spencer has moved, seconded by Mr. Good, that Mr. W. L. Baker be subpoenaed to appear before this Committee. He is an expert bank man. It was left to me, I may say, and I have had communications with him. He wrote me that he was engaged in some business affairs which precluded his coming here. I really do not know whether he wanted to come or not; but at least he said that his business engagements were such that he could not come without sacrifice to himself. Mr. Spencer's motion is that he be subpoenaed.

Mr. SHAW: I understood that the view of the Committee had previously been taken that this man be called. Why should it be necessary to move and second a motion now.

The CHAIRMAN: That is quite true, and I think the motion should pass.

Mr. CLARK: This is a motion for subpoenaing him which is a different proposition.

The CHAIRMAN: We have not subpoenaed anybody.

Mr. HANSON: What is the idea that is to be proved by Mr. Baker?

The CHAIRMAN: I do not know.

Mr. RYCKMAN: He never held more than a minor position in a minor bank.

Mr. SPENCER: I beg to differ. He was supervisor of the Standard Bank of Canada, and is very highly spoken of by the General Manager.

Mr. MARLER: Have we not taken the sense of the meeting and decided that Sir John Aird and Sir Frederick Williams-Taylor should not be called? What is the sense of putting another motion for the same purpose?

Mr. BAXTER: The reason I questioned whether the motion had carried is that my hearing is not very acute. A gentleman moved something; I did not hear the name; I heard something about someone being called. Then you Mr. Chairman stated something and I could not hear you, and then you declared the motion carried. I did not know what had been moved or what had been carried. It is not your fault, Mr. Chairman; a conversation is going on all over the room, and while my hearing is somewhat defective, it is not so defective that sitting at this table I should not be able to hear what is going on. Therefore, I asked the question to arouse the attention of the Committee and to know what we were doing.

The CHAIRMAN: Gentlemen, we must dispose of this some way or other.

Mr. MARLER: Did you make the suggestion of calling this man, Mr. Chairman?

The CHAIRMAN: I do not want to shut off any member of the Committee; I only said that we agreed to call him. He was unable to appear; I have asked him twice, three times I think, to come. We have not subpoenaed any witnesses at all during the proceedings of the Committee, and it is an unusual thing to subpoena persons. We usually ask the aid of persons who are willing to come in matters of this kind. However, Mr. Spencer has made the motion, and I think in fairness it should be dealt with.

On a show of hands, the motion was declared lost.

Mr. SPENCER: Are you open for any further motions, Mr. Chairman?

The CHAIRMAN: No; we should not have taken up your motion. I think we had better take the motions in the morning.

Mr. COOTE: Did you call for any motions this morning, do you remember, Mr. Chairman?

The CHAIRMAN: I usually do, and you and everybody knows that if any person has any motion in the morning they can bring it up.

Mr. COOTE: I was here with a motion in my book this morning, and because I was talking with Mr. Ross I did not know whether motions were called for or not.

The CHAIRMAN: I always make it a practice to call for motions first thing in the morning.

We will now proceed with subsection 6 of clause 56.

Hon. Mr. FIELDING: On the question of the change of auditors, I rather like my own clause, but the suggestion now is that one of these auditors may be permanent, and that the other shall be in office not longer than two years. That is reducing the period. This would require a change of one auditor once in every two years. If it is a matter of general agreement I have no objection to it; I rather thought my own was clear enough.

On subsection 6 of clause 56 Mr. Marler moved the following amendment:—

“The shareholders shall at each annual general meeting appoint two persons, not members of the same firm, whose names are included in the last published list, to audit the affairs of the bank; but if the same two persons, or members respectively of the same two firms have been appointed for two years in succession to audit the affairs of any one bank, one such person or any member of one such firm shall not be again appointed to audit the affairs of such bank during the period of two years next following the term for which he was last appointed.”

Amendment declared carried.

On subsection 10 of section 56, Mr. Woodsworth's amendment was proceeded with.

Mr. SHAW: I would like to ask Mr. Edwards a question. If statements going back for a period of two or three years had been furnished by the Merchants Bank, and if these reports had been examined by a competent official, would they have disclosed the condition of that bank?

Mr. EDWARDS: I examined the returns made to the department for a year back, and I may say that I would have been unable myself, if I had seen those reports from month to month, to ascertain the true position of the Merchants Bank from those reports alone.

Mr. SHAW: Was there anything in the reports made to the department's officials which would indicate that there was something wrong in connection with that institution?

Mr. EDWARDS: No, it would not have been possible to ascertain it by the returns made to the Department.

Mr. GOOD: You mean the monthly returns?

Mr. EDWARDS: The monthly returns.

Mr. GOOD: Were there any other returns?

Mr. EDWARDS: There were returns of real estate; these would afford information regarding the status of the bank's premises. There are numerous other returns, none of which is of a character to indicate the condition of the bank. For instance, there is a statement of outstanding cheques, unclaimed balances and a lot of various things of that kind; but none of them are of a sort which could indicate by any possibility the condition or solvency of a bank.

Mr. SHAW: Do I understand that the statements required to be furnished to the Minister of Finance are of no use?

Mr. EDWARDS: I think I stated in my previous statement that I could not tell from the monthly returns what the condition was, that from the informa-

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tion supplied by them it would not have been possible for an official of the Finance Department to discover the condition of the Merchants Bank. That was discovered by means of a special examination of the Bank's affairs later.

Mr. GOOD: Do you think that a return could be put in such a shape that that information would be available?

Mr. EDWARDS: I have included in my recommendation to the Minister the further requirements which would afford that class of information.

Mr. GARLAND: I would like to ask Mr. Edwards a question. He states that the examination of the monthly statements would not have indicated a true condition of the Merchants Bank. I can quite agree with him on that point. But would not extraordinary differences between one monthly statement and the next month's statement arouse suspicion in the minds of a close examiner, sufficient at any rate to suggest a doubt? For example, I read here in the report of Mr. Edwards' evidence:

"That brings in another consideration, but the estimated losses by the branch managers, at \$9,686,000 far exceeded the total of overdue debts, so that proper application would set the sum of at least that amount against the current. The matter to which that last observation relates, I find that in the return to the minister of finance of October 31, there has been a misapplication of the appropriations, the total amount.

"It had all been deducted from the overdue debts, whereas I find upon examination of the reports for the March period on which these appropriations were based that there was a considerable amount which should have been applied to reduce the amount of the current loans, and as a matter of fact was so applied in the April returns. \$713,798.61 was set aside as an appropriation against the total of losses upon current loans. \$6,100,000 was set aside as appropriation against losses on overdue debts, according to the return of April 30.

"In the return of October the same total amount is set aside as an appropriation entirely against overdue debts. And no allowance is made in the return of October 31 for any losses upon current loans."

Would not that have aroused suspicion in the mind of a cross-examiner?

Mr. EDWARDS: The precise figures which you have read do not appear in any monthly return. The deduction of a smaller amount from a larger amount leaving a net balance, and the net balance only being reported in the return, does not afford any indication as to the application of the appropriation.

Mr. GARLAND: You do not make an analysis of the monthly return?

Mr. EDWARDS: The monthly returns are not capable of analysis to that extent. I have included amongst my recommendations to the Minister that returns of an additional character should be acquired, which will give the information which was discovered by me upon examination of the books of the Merchants Bank. If the recommendations are accepted, there will be information in the Finance Department that will be a safe guide or indication as to the progress of the bank's affairs, whether it is gaining or losing, or whether there are any conditions arising which call for special investigation.

Mr. COOTE: If these auditors were required to report, it seems to me that under Mr. Woodsworth's amendment you would have power to require the auditors to make those returns to your Department. If you had a return showing the gross profit, and then showing how that profit was appropriated, that is, showing how much went for dividends, how much was set aside for loans, how much for bank premises and so on, and that was furnished say twice a year, or as often as you required, is there any reason why those returns

could not be used by you to give you a reasonably good idea of what condition that bank was in?

Mr. EDWARDS: It would be of great assistance. Whether it would afford all the information required or not, it would be impossible for me to say. The indications would be there, and they would suggest further inquiries which could be made of the auditors or of the banks. The Minister could call for any additional information he desired. He is entitled to know anything, to have any question he asks answered by the bank, and there would be enough to suggest the need for further inquiry.

Mr. GOOD: From your knowledge of the Merchants Bank, if some such system had been in operation at that time, would it not have been possible for your Department to detect the unsound condition of the bank a considerable time before that condition was actually discovered? Would it not be probable at least?

Mr. EDWARDS: I think the information might have been had sooner, but I would like to explain that the major portion of the losses in the Merchants Bank case—over \$4,000,000, at any rate, out of the \$8,000,000 reported as losses, were the result of quite recent transactions. The Thornton Davidson and Ladies' ware and transactions of that kind had occurred quite recently; they were not a long-standing matter at all. Probably the other half, or less than half represented matters which should have been reported on by the auditors and should have come to the attention in some way of someone responsible for the statement of the Bank's affairs perhaps years before. Whether the supplying of additional information which I have recommended to the Minister should be supplied, would alone have disclosed those matters, I would not say, probably not. But, as I say, there would be sufficient indication to suggest to the Minister the need of further inquiry and of getting the information desired.

Mr. COOTE: Am I right in this assumption, that a large amount was transferred out of the bank premises appropriation to cover up the losses?

Mr. EDWARDS: Yes.

Mr. COOTE: If those proper returns had come to your Department, would it not have been quite noticeable that there was a difference between the two returns of several million dollars, and would not that have naturally led an official in your Department giving his time to this particular matter to be suspicious and feel that he should investigate as to why that had taken place?

Mr. EDWARDS: There were certainly differences that might have prompted further inquiries. That was complicated to a considerable extent by the formation of a holding company for the real estate, the issue of bonds against a mortgage of that property, and the writing up of a million and a quarter in the value of the bank premises. These various matters presented a rather complicated situation, and I am not sure that even that could have been discovered from the information available in the Finance Department.

Mr. SPENCER: There is a distinct difference of opinion on this question; Mr. Edwards has advanced some very constructive suggestions, and I would suggest that this amendment be held over so that Mr. Edwards and Mr. Woodsworth and those who are keenly interested in it can get together and bring in another amendment.

Hon. Mr. FIELDING: I do not see any good purpose in that; Mr. Edwards has given us the best advice he can, and as far as possible Mr. Edwards's advice has been carried out in this draft bill. Insofar as he has been able to advise us we have put in this bill all the checks that can reasonably be applied as the result of the Merchants Bank affair.

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On a show of hands been taken, the amendment was declared lost.

MR. WOODSWORTH: Mr. Chairman, this is an important matter, and I think we might follow the precedent established this morning, and have a recorded vote on this question.

THE CHAIRMAN: Do you require it, Mr. Woodsworth?

MR. WOODSWORTH: I would like to have it, I think it is a very important question.

On a recorded vote being taken, the amendment was declared lost.

On subsection 11 of section 56, Mr. Garland moved the following amendment:

"That after the word "report" in the first line thereof, the following be added: 'Individually or jointly, as to them may seem fit.'"

On subsection 11 of section 56, Mr. Stevens moved an amendment, that the following words should be added:

"And such report shall be incorporated in the minutes of the directors' meeting first following its receipt."

As amended, the clause was declared carried.

The Committee adjourned until 11 o'clock a.m., Thursday, May 31, 1923.

DISCUSSIONS

THURSDAY, May 31, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Mclean, the Chairman, presiding.

THE CHAIRMAN: Any motions?

MR. W. F. MACLEAN: Before you proceed, I would like to ask Mr. Ross one other question.

THE CHAIRMAN: Let us put the motion first.

MR. IRVINE: I have an amendment to subsection 4 of section 61, that the word "one" be substituted for the word "three" in the second line, and that the word "fourth" in the third line be struck out and the word "three" be substituted.

HON. MR. FIELDING: What does that mean?

MR. IRVINE: That is with regard to the appointment of—

HON. MR. FIELDING: Trustees of the gold reserve?

MR. IRVINE: Yes. If I am in order, I would also like to ask if there will be a report by the Committee to the House giving a summary of the evidence taken on the resolution which has been before this Committee for consideration, prior to the Bank Act going into Committee of the whole.

THE CHAIRMAN: I do not know what our procedure will be; we will have to talk that over. All the evidence will go to the House, so that the evidence on that resolution will be before the House.

MR. IRVINE: I wondered what the ordinary procedure was in that regard. Is it customary for the Committee to report fairly fully to the House an investigation of that kind?

The CHAIRMAN: We will have to have a session or two on your resolution to decide what our recommendations will be, and the report will be accompanied by the evidence.

Mr. SPENCER: I have amendments to two clauses, one in regard to an addition to subsection 4 of Section 54 calling for full particulars in regard to the profit and loss account that is sent to the shareholders; the other one is an addition of the following words to Section 56 (a).

"The report called for under this Section to be published."

Mr. GOOD: Some time ago it was suggested that the capital required for an organized bank should be reduced from \$500,000 to \$100,000. The matter was debated for some time and turned down. Notice of reconsideration has been handed in. Now, in the event of its not being reconsidered, or in the event of the same decision being reached as before, I have a number of amendments which I would like to move providing for the incorporation of community banks which would differ in some respects from the ordinary chartered banks. These have to do with quite a number of sections, and possibly, in view of the fact that the decision reached by the Committee may be the same as was reached before, I had better hand these amendments in now.

The CHAIRMAN: They can be put in, if it is not out of order.

Mr. GOOD: They are quite in order, Mr. Chairman. They are amendments to sections which would enable community banks to be organized.

Mr. MITCHELL: We have disposed of that section, have we not?

The CHAIRMAN: I cannot tell. I have not seen the amendments and do not know.

Mr. BIRD: I would like to move that two witnesses conversant with the Federal Reserve system in the United States be called to give evidence before this Committee. In that connection I would like to submit the name of John H. Rich of the Federal Reserve Bank of Minneapolis. In support of that resolution, I would like to say that on reviewing the evidence given before this Committee I have been struck with the contribution that was made by the examination of Sir Frederick Williams-Taylor by Mr. Ladner. That examination brought out the fact that the Federal Reserve idea, dissociating the idea from any particular work out of it, seems to have numerous bearings on our banking system in Canada which were not in any way refuted by Sir Frederick. In fact, that evidence stands as proof that Sir Frederick had no reasoned opposition to make to the Federal Reserve idea; in fact, he admitted that it obtained in most of the prominent countries in Europe and was to some extent carried out in Canada. Now, it seems to me, that in this Federal Reserve idea we have something that goes to the very heart of the banking system, and that if we in Canada could make an adaptation of that idea in keeping with our specialized system here, we might find a solution for many of the problems that we have been discussing separately before this Committee. I feel that some such system, with its rediscounting facilities, has a direct bearing upon any system of rural credits that we may think fit to adopt. If we had a witness before us with respect to the Federal Reserve system in the United States, he would not only be able to give us an idea of the working out of that system in regard to the Federal Reserve Bank, but he would also be able to give us information in regard to its bearing upon the splendid system of rural credits which is in operation in that country; because I understand that not only a long term credit system but an intermediate system has been moulded in that country upon the Federal Reserve Bank system. It depends upon the machinery—I mean that the machinery of the rural credit system is analogous to the Federal Reserve system.

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Mr. W. F. MACLEAN: It cannot function without the assistance of the Federal Reserve Bank system.

Mr. BIRD: Then with regard to bank inspection and bank mergers, and things of that character, they also seem to present a case for some such scheme as this, a scheme that will be purely our own, not that we should take over any scheme that may exist even in the United States, though I think they are on the right lines there, but we might take the Treasury Board as it now exists and functions under the Finance Act of 1914 and organize it in such a manner that it might fulfil many functions that I think have been proven to be necessary by the discussions that have taken place in this Committee. I do not apologize for introducing this motion at this late hour of the session. It may be that time is the only valid objection to calling those witnesses, but then if you are going to make that an objection, you are just going to reveal once again the folly of pushing through this Act this session. I think that here is a reasonable investigation that really ought to be made.

The CHAIRMAN: What would you expect to find out from this man? You could easily find out what the Federal Reserve system in the United States is by going to the library.

Mr. IRVINE: So you could with anything else.

The CHAIRMAN: There is nothing mysterious about the Federal Reserve system, and I do not think it would be worth while calling a man from any distance to explain what it is. We know what it is.

Mr. BIRD: Is that true; do we know?

The CHAIRMAN: Oh, yes, it is easy to understand.

Mr. BIRD: Take the evidence before the Special Committee on Agricultural Conditions in regard to the intermediate credit system in the United States; you could go to the library and get a very good idea of that if you are so disposed, and if you are a library type of man.

The CHAIRMAN: That would be very difficult to do as regards intermediate credits, to find out just where the law stood.

Mr. BIRD: In the evidence taken before the Committee on Agricultural Conditions I discerned by some of the questions which members asked that there was practically no knowledge among the members of that Committee of the United States system, either Federal Reserve or long term credit, and if you apply your argument all round, Mr. Chairman, we would not need to hold this investigation at all, because we could go to the library and acquaint ourselves with every angle of the various matters before us.

The CHAIRMAN: We are not dealing with rural credits in detail in this Committee; that was left to another committee by arrangement.

Mr. BIRD: But it is a very vital matter and of much consequence to this Committee, and I do not think we are asking for anything unreasonable, or that tends in a subversive direction. I move this motion.

The CHAIRMAN: Is this a notice of motion?

Mr. COOTE: I have very much pleasure in seconding Mr. Bird's motion.

Hon. Mr. FIELDING: It is only a notice of motion; we do not need to debate it.

Mr. COOTE: Would the Clerk say that this was not put in before?

Mr. SHAW: What is the notice of motion?

The CHAIRMAN: That two persons be subpoenaed to discuss the Federal Reserve in the United States.

Mr. SPENCER: Does it call for a notice of motion to call witnesses?

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Mr. IRVINE: I think we ought to take a vote on this, and if it is defeated, I would move that the Committee adjourn for a week and go to the library to study this thing.

Hon. Mr. FIELDING: Why not adjourn for a session?

Mr. GOOD: There seems to be some little confusion as to whether notice of motion was given in this matter.

The CHAIRMAN: I think notice was given.

Mr. GOOD: Then it is in order to discuss it now. I understood Mr. Bird to say that he had handed in notice two or three days ago.

Hon. Mr. FIELDING: Whatever may have been said at an earlier stage, I really think that at the present stage of the Committee's business it is not a reasonable request to make to bring people from the United States to tell us about the Federal Reserve. I would not go so far as the Chairman and say that everybody knows about it, but we can get the information probably as well as we could from those gentlemen. At all events, whatever may have been said at an earlier stage, I do not think it is reasonable to delay the proceedings of the Committee and start on this fresh inquiry.

Mr. GOOD: The situation is simply this, that somebody has decided that we have got to jam this thing through.

Hon. Mr. FIELDING: I do not think you ought to use that word. Nobody is jamming anything or rushing anything. Everything is being considered fairly, and it is not right to give the idea to the country that we are jamming or rushing this through.

Mr. GOOD: I beg to differ with the Minister. It has just been represented by him that we have not time at this stage to look into this matter, which is a very important and pertinent matter. If we have not time to look into it, it is an indication that we are doing what I meant when I used the word "jamming" or "railroading" this thing through. It is another indication of the propriety of our contention that this matter ought to stand over for another year. It is a very important question. It is admitted right now before this Committee that we must not do it because we have not time; we are told that we must not do this or we must not do that because we have not time.

Hon. Mr. FIELDING: We would have had abundance of time if the matter had been taken up earlier, but now when the Members of Parliament are all desirous of bringing business to a close, we have not time, and that is a proper objection to be taken.

Mr. GOOD: We are all anxious to bring this to a close, but not by ignoring a lot of considerations that ought to be weighed. I am agreeable with the rest to allow this matter to stand over, but I am not agreeable to stifling investigation.

Mr. BAXTER: Mr. Chairman, I do not think we are going to assist the business of this Committee by anyone suggesting that there is a jamming through of anything. Speaking as a member of the official Opposition, I think that the Government, so far as it controls the affairs of this Committee, has given every possible latitude, even to the extent of absolute generosity, in dealing with the business before us; and if at the end of the session the business is not as far forward as we would like to see, it is entirely because gentlemen have insisted on investigating most painfully something that is of little importance. They have taken up time in discussing a credit system that could not be applied in Canada alone unless other nations concurred, and it is very doubtful if it would be applicable under any circumstances. They have dis-

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cussed such matters at length instead of devoting themselves to the consideration of that particular measure which every one knew had to come up this year. I deplore the introduction of any suggestion of jamming. It will only lead, if it is persisted in, to a species of recrimination, because some of us will be tempted to put our finger on what we consider the very real obstruction which is only too evident in this Committee. I think we had better have the thing brought to a head now and know whether we are going to face organized obstruction or not. There is a way to deal with it, if it has to be dealt with.

Mr. SPENCER: Mr. Chairman, I would like to point out that ten years ago when the investigation was not nearly as important as it is to-day, when the state of affairs was altogether in much better shape than it is to-day, no less than five bankers of the United States were invited to give information to this Committee. This session, not a single U.S.A. banker has been called to give evidence.

The CHAIRMAN: The men called were men trained in Canadian banks, Canadian or British subjects, called for their experience in Canadian banks, plus their American experience.

Mr. SPENCER: Certain names of Canadian bankers were put forward this session by members interested in this Committee, and they were turned down by the sub-committee, irrespective of the statement that Mr. Mitchell made the other day. We have only had one economist from the United States here. The United States, I think I am right in saying, is doing more to-day in regard to investigation into the financial system than any other country in the world, and if we are going to refuse to take advantage of the investigations that they are making, it certainly looks as if we are wanting to force this thing through.

Mr. MITCHELL: The last speaker said that irrespective of the statement I made, certain gentlemen had not been called. I want to say that that is absolutely not in accordance with the facts. Every case that came before that Committee was decided unanimously by the Committee, and we only had one case where there was a division, and that was over the question of subpoenaing

Mr. Macarow and Sir Montagu Allan, after discussing it there we decided to let the matter stand until further consideration. That was never further considered by that Committee, but was referred to the general committee for decision, and then was voted down here.

The CHAIRMAN: Mr. Bird moves—

Mr. SPENCER: Mr. Chairman, may I speak?

The CHAIRMAN: There is no reason for discussing this further.

Mr. SPENCER: Mr. Mitchell has intimated that I made a statement that was not true. I am sorry Mr. Speakman is not here, but he was the representative of our group on the sub-committee, and he certainly submitted names which were turned down. That was all I wished to say.

Mr. W. F. MACLEAN: I would like to say this in reply to the Minister of Finance as to the procedure, namely that we are dealing with a law that will stand for ten years. They say that is not so, but I understand it is to be stabilized, and therefore the fullest consideration ought to be given to this question, and no time would be lost even if the bill had to go over for another year, although I am not making that proposal now. I may be led to press that later, in view of the improvements to the Banking laws that are being made in the United States, and also in view of the fact that in England a few days ago a measure was introduced improving the farm credits of that country, based on the assistance of the national Government in that respect.

Mr. IRVINE: It has been suggested by some members that there is an organized opposition in this Committee to obstruct the business of this Committee. If there is, of course I do not know anything about it; that is all I can say about that, I have not seen any evidence of it. I think perhaps there is a little evidence on the other side of the organization, but I am afraid there is not much organization on the part of those who are seeking to call these witnesses under discussion. I thought it had been settled that the bill was to be put through this year, and that, I am sure, is perfectly satisfactory to me and I presume satisfactory to all the members of the Committee, that it be put through, but that does not mean that time shall enter into the question. It is efficiency we are concerned with, and not time. I believe the Minister of Finance said he was perfectly willing to stay here till August if necessary; it might take longer than August. It has been objected that we have spent the time of this Committee in advocating the impossible. That is a very debatable question. The impossible to some people has always been the possible to others in the past, and the possible to some people is the impossible to others. That is not different to-day. Let me say that I think we, most of us, thought that this bill would not be put through this year, and consequently we spent some time in investigating the basis of credit, thinking that we would have some time next year to deal with the more detailed and practical side of banking, but now that it has been decided to put the bill through, it is only reasonable that we should ask for witnesses who are experienced in the practical side of banking, and that, I believe, is the reason for this motion this morning. Now, we are making an act for ten years, and another week extra should not be of very great significance to the members of this Committee. It may make no difference whether we send for these men or not, as far as the Bank Act is concerned, I do not know, but I think we ought to at least get the information, and deal with it on its merits after the information has been received.

Mr. COOTE: I would like to urge that this request of Mr. Bird's be given every consideration by this Committee, because of the fact that I think the introduction of the Federal Reserve System in the United States has been the biggest improvement in the banking system that has ever been made in the United States. It is generally regarded by people in Canada as being a great step forward, and there is a feeling in Canada that our system might very well, and could very easily be improved by the introduction of a Federal Reserve System in connection with the banking system here. I brought before this Committee an amendment to permit of the formation of smaller banks in Canada. It was turned down by this Committee—I think if I could judge aright, because of the fact that the Members felt that these banks could not carry on business in the face of the opposition of the larger banks. Now Mr. Chairman, if we had a Federal Reserve System, I think it is quite possible that we might have the smaller banks, and before we get satisfaction out of the banking system in Canada we have to have some local control of the granting of credit from local deposits. I do not see how it is going to be brought about without some Federal Reserve System, and surely if we have a man who has been at the head of one of these banks, we could get a better idea of the system from him in one hour than from reading in the library for a week.

Mr. GARLAND: May I ask exactly what the motion is?

The CHAIRMAN: The motion is, moved by Mr. Bird and seconded by Mr. Good, I think, that two witnesses conversant with the Federal Reserve System of the United States be called to give evidence before this Committee.

On a show of hands, the motion was declared lost.

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Mr. SHAW: I just want to make one observation, called for by the remarks of Mr. Baxter; he suggests something about organized obstruction. Now, if there be such organized obstruction, I know nothing about it, as I am not a party to it in any shape or form. I think perhaps Mr. Baxter should indicate where the obstruction is coming from. On the other hand, it is perfectly clear in my mind that there is organized organization as far as the banking interests are concerned. If particulars are required—

The CHAIRMAN: I think I shall rule that the incident is closed.

Mr. BAXTER: It may not be necessary now to indicate anybody; it may be necessary to do so later.

Mr. SHAW: I am not going to be alarmed in the least.

On subsection 15 of clause 56, Mr. Coote moved the following amendment:

“That all the words in italics be changed to read, ‘mailed to every shareholder at his last known post office address.’”

Hon. Mr. FIELDING: I do not think there is any objection to that. I think we can accept that.

As amended, the clause was declared carried.

On subsection 16 of section 56.

The CHAIRMAN: Mr. Fielding moves the following amendment:—

“No auditor and no member of any firm of auditors shall be eligible for appointment as auditor of a bank hereunder for a period of two years if he or any members of his firm while acting as auditor of a bank accepts any retainer or undertakes any employment on behalf of or at the instance of such bank, or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder.”

Discussion followed.

Mr. MARLER: I agree with the principle of the clause but I cannot agree with its wording. Why not say in direct terms that while a bank auditor, neither he nor any member of his firm shall do any work for that bank except as acting as auditor.

Hon. Mr. FIELDING: I think that is what the clause says, but if you will draft one along these lines I think it would be worthy of consideration. I am not wedded to the clause as it stands, but I think it means exactly what you say.

Mr. MARLER: I would suggest something to this effect: No auditor, while acting as auditor of a bank, and no member of his firm while he is acting as auditor of a bank, shall accept any retainer or undertake any employment on behalf of or at the instance of such bank, or any office thereof. Leave out the question of penalty altogether.

Hon. Mr. FIELDING: If Mr. Marler will put that in the form of an amendment I have no objection, though I cannot see the difference.

Mr. MARLER: I shall consult with Mr. Edwards and try to frame an amendment.

The CHAIRMAN: The clause stands. The principle is adopted, but not the phraseology.

Subsection 16 of section 56 allowed to stand.

On subsection 17 of section 56.

The CHAIRMAN: Mr. Fielding moves an amendment

“By adding as subsection 17 the following:

“No person shall be appointed an auditor of the bank, if such person or any member of his firm is a director or officer of the bank.”

Mr. RYCKMAN: I would suggest that instead of the words “the bank” in the last line, the words should be “of such bank.”

Mr. GOOD: I think the words “auditor of the bank” in the second line should read “auditor of a bank.”

Subsection 17 as amended carried.

On section 61, subsection 3.

The CHAIRMAN: This clause was allowed to stand, I do not know for what purpose.

Mr. COOTE: It was at my request that this clause stood. I wish to register my objection to passing this clause without limiting the banks to an interest charge of 7 per cent. I do not see why they should have this privilege of issuing their own notes if they are to be allowed to charge whatever interest they please. I ask that the clause stand until the question of interest is considered.

The CHAIRMAN: On the understanding that we can go back to this clause if there is any change in the subsequent sections, I think we should pass it now.

Subsection 3 of section 61 carried.

On subsection 3 of section 18, Mr. Coote moved an amendment as follows:—

“That the portion of subsection 3 of the draft bill in italics be struck out, and the following substituted therefor:

‘and such guarantee or pension fund, whether contributed in whole or in part out of the funds of the bank or not, shall be invested in securities in which a trustee may invest under The Trust Companies Act, 1914. Any conversion of investments rendered necessary by this provision shall be made within such time or times as the Minister may deem reasonable.’”

Amendment declared carried.

On subsection 7 of section 88, Mr. Laflamme moved that this section be reconsidered.

The CHAIRMAN: I would like to consider the question as to whether that motion for reconsideration is in order or not.

Sir HENRY DRAYTON: It should be thrown out, I think, right now.

The CHAIRMAN: I am more concerned as to whether we are in order about these reconsiderations. We go on and finish clauses, and somebody comes along and gives notice of reconsideration; we will never finish our business. I think I will rule it out of order if I am asked to give a ruling.

Some Hon. GENTLEMEN: Carried.

The Chairman appointed a sub-committee consisting of Messrs. Mitchell, Baxter and Shaw to consider the question of the constitutionality of subsection 4 of section 96.

The Committee adjourned until 11 o'clock a.m., Friday, June 1, 1923.

DISCUSSIONS

FRIDAY, June 1, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Are there any motions this morning? If not, we will take up section 88 A

On section 88 A

The CHAIRMAN: I will try to state to the Committee just how this section stands. The purpose of the clause is simple and the principle is set forth in clause 1 which provides for registration of intention to make a loan. The Minister's bill provides that this notice of intention should be filed with the Receiver General of each province. The other clauses set forth the procedure, and should cause us little or no trouble. Some gentlemen of the Committee made the suggestion that intention to borrow under clauses 2, 8 and 12 should be registered in a different way, and Mr. Coote and Mr. Ross attempted to collaborate upon an amendment. Clauses 2, 8 and 12 refer to loans and advances upon seed grain, threshed grain and stock. Mr. Ross has produced an amendment, along with Mr. Coote, to the effect that in the case of a loan under clauses 2, 8 or 12, the notice should be filed with the local officer with whom chattel mortgages are registered under the provincial laws, and providing further that the Governor in Council authorize these local officers to accept the notice of intention for registration. That was not acceptable to Mr. Coote, nor, I understand, to other members of the Committee. That amendment in a way is still before the Committee, but Mr. Coote submits this further amendment, that if a party proposes to borrow under the provisions of 2, 8 and 12 of section 88, notice of his intention to borrow, together with the amount, shall be given in the schedule; That is, in addition to the notice of intention to borrow he shall specify the amount. In other respects, I understand Mr. Coote's amendment to mean that the balance of the section remains as it is. The only addition would be that the notice of intention to borrow will specify the amount, whereas in other cases it would not.

Mr. COOTE: Also that the registration should state under which subsection the loan is made?

The CHAIRMAN: Yes.

Mr. MITCHELL: Does that except Quebec?

Hon. Mr. FIELDING: There is no reference to Quebec.

Mr. MITCHELL: I am not raising any objection except to point out that we have no such thing in Quebec as chattel mortgages.

Hon. Mr. FIELDING: There is no allusion to the chattel mortgage. It is the same registration as is proposed in other cases, but in the case of these three distinct lines, the amount of the loan has to be mentioned.

The CHAIRMAN: And the notice would state whether it was under 2, 8 or 12.

Mr. GOOD: Is this registration under those subsections to be local or with the Receiver General?

The CHAIRMAN: With the Receiver General.

Mr. GOOD: That is the point wherein it differs with the original suggestion?

Hon. Mr. FIELDING: From the chattel mortgage suggestion.

The CHAIRMAN: In the case of the chattel mortgage, there is this difficulty; it would mean, I understand, a charge of from \$5 to \$7 if you adopt the chattel

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mortgage idea, and also considerable work. Mr. Coote's suggestion is that this be registered at the office of the Receiver General of each province.

Mr. SPENCER: What expense would be incurred in connection with this?

The CHAIRMAN: It would be a small fee; the fee is provided.

Mr. RYCKMAN: Should we not see the amendment in text?

The CHAIRMAN: I will read it. I think that if the principle is adopted, it would be better to put in another section altogether. Mr. Coote's amendment reads

"By inserting after the word 'document' in the sixth line of section 88 (a) the words 'if intended to be given in respect to a loan taken under the provisions of either subsections 2, 8 or 12, of section 88 (a) shall, in addition to the particulars required by the form set out in Schedule F, specify the amount of the loan'."—

Mr. Ross suggests "specify the amount intended to be borrowed."

"And the number of the section and subsection of the Act under which the loan is to be taken, in any and in all cases."

Hon. Mr. FIELDING: If it is to be done at all, perhaps this is as good a form as any. My doubt is whether it is wise to make an exception to the general rule. That is a debateable question.

Mr. GOOD: I understood that the claim made by Mr. Coote and Mr. Carmichael was that it would be necessary in those cases to have the registration local. Here we are departing from that principle, and going back to the original idea of the Minister by making it provincial.

Mr. COOTE: This amendment does not meet entirely what I was trying to provide for by any means, but it seemed to me it would be a help, and that possibly it was in the least objectionable form to put before this Committee.

The CHAIRMAN: How would it be, then, to let this stand till a little later, until we come to the right place for this? I think it would be better anyway, I do not believe you can put that in 88 A, and if it would be satisfactory to you, I would suggest that it be allowed to stand.

Mr. COOTE: That would be quite satisfactory to me.

The CHAIRMAN: Gentlemen, consider 88 A as read. Mr. Irvine has an amendment that must be considered here. He moves that Section 88 A be amended in the following particulars:

"That subsection 1 be amended by adding after the word 'intention' in the third line thereof the words 'and of the amount of the loan'".

That is, Mr. Irvine wishes the amount of the loan to go in. His next amendment is, by striking out the words "after this section comes into force" in the seventh line thereof, and inserting the words "heretofore or" after the word "security" in the said seventh line. What does that mean, Mr. Irvine, that second amendment?

Mr. IRVINE: That just makes good what has been done in the other one.

The CHAIRMAN: You are making this apply to previous loans? Then, the first point is the amount to be given; the next point is making it retroactive. Your third amendment is as follows:

"By striking out all the words commencing with the words 'A notice' in the eleventh line of subsection 1, down to the end of said subsection".

Your third amendment eliminated the three year feature, that is, this notice of intention to be registered every three years. Is that right, Mr. Irvine?

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Mr. IRVINE: I might say, Mr. Chairman, that I wished to give expression to the wishes of Mr. Tulloch, as you will notice. Briefly stating it, he wanted to have the specific amounts stated with the original registration provision; that is covered in the first amendment. The next is that all those granted prior to the 1st of August, 1923, be null and void.

The CHAIRMAN: I think we see it now, Mr. Irvine. Gentlemen, the effect of Mr. Irvine's amendments is this; first, in the notice of intention to be filed, the amount intended to be borrowed must be stated. That is number one. Then number two is that he makes this retroactive, and applicable to previous loans.

Mr. SPENCER: How far is it supposed to be retroactive? How far, as suggested in his amendment?

The CHAIRMAN: All loans running at the time of the coming into force of this bill, apparently. Then, as I say, he eliminates the provision requiring the filling of the notice of intention to borrow every three year period. Then, he requires monthly returns of all documents registered under this section, to the Minister by the several Assistant Receivers General, and published in the Canada Gazette.

Discussion followed.

Mr. SHAW: I would suggest that in Mr. Irvine's amendment, instead of reading "and of the amount of the loan", it be changed to read, "and of the maximum amount of the loan or loans intended to be borrowed".

Discussion followed.

Mr. BAXTER: I would suggest that this subsection 8, that is subsection 4 of the resolution imposing the new subsection 8, be dropped. It is utterly valueless; more than that, it is absolutely harmful, and it is not the way in which the interested party would get the information he wanted. Why not, with Mr. Shaw's suggested change, pass the others to the House and get the opinion of the whole House upon this?

Mr. IRVINE: I am quite willing to drop it.

Hon. Mr. FIELDING: We are just as likely to get a fair and intelligent discussion here, though we are more limited in numbers, as in the House. As to publication, I cannot see any good purpose at all. We get back to the question that in surrounding so many of those securities with difficulties, you are not only obstructing the bank, but you are obstructing the man who wants the money. If you are going to make this section 88 so difficult, you might as well destroy it. It is largely, though not wholly, to benefit the foreigner or rather the British trader, who is a stranger, and puts up a whine when he is losing money; and all we can do in the matter is to sound a note of warning. A vast amount of business is done under this section. I have not the figures, but every honourable gentleman knows that a vast amount of business is done under Section 88. When this was first imposed, a manufacturer said that he did not like it; he did not like the idea of the business he was doing with the banks being disclosed, but afterwards he said, "I have changed my mind; now I feel it an honour to be on that list, because all the big men in Canada will be on that register, and only the small men will not appear on it."

Mr. SPENCER: I wish to draw the attention of the Committee to one phase of Mr. Tulloch's complaint that has not been discussed this morning. He pointed out that most of the British goods were sold on a sixty days' claim, and that before selling them they got into touch with the Canadian banks to find out the standing of the buyers. His complaint was that the Canadian banks were not so strict in giving a report of their clients' standing as were the banks in the Old Country.

Hon. Mr. FIELDING: If a bank gives bad information, or fails to give good information, and damage comes from it you can come on the bank.

Mr. IRVINE: The whole question is, can we do anything on this point which will make it safer for the British or foreign trader to do business with our country. If the Minister assures us that we cannot do anything to relieve the situation as regards the business men of Great Britain, I do not suppose there is much use of discussing it further.

Mr. GOOD: Will the Minister not agree to the proposition that the maximum amount of the loan to be asked for should be included in the registration?

Hon. Mr. FIELDING: I do not think it would be in the interests of the borrower; I am thinking of him.

Mr. IRVINE: I drop subsection 8 altogether.

The CHAIRMAN: What about the retroactive feature?

Mr. IRVINE: It is not of very great importance. I accept Mr. Shaw's suggestion as to Number 1.

The CHAIRMAN: Mr. Irvine drops subsection 8.

Amendment to subsection 1, clause 88A declared lost.

The CHAIRMAN: Mr. Irvine moves also that this legislation shall be retroactive and shall apply to loans now running.

Mr. IRVINE: Now, it is of very little use to put this; the loss of the first amendment really precedes the others.

The CHAIRMAN: The other amendments will be dropped?

Mr. IRVINE: Yes.

The CHAIRMAN: Then, how will it be to vote on the principle of Mr. Coote's amendment, with the understanding that it will have to be redrafted?

Mr. GOOD: The principle of that is that in respect to farmers' loans, the amount shall be specified; is that it?

The CHAIRMAN: Yes.

Mr. COOTE: It seems to me there would be nothing to prevent a farmer in the spring of the year, say if he intended to borrow \$500 or \$1,000 under this section 88, giving notice of it. There would not be very many registrations. The registration is a very simple operation; he simply signs a notice, and it is sent by the bank to the Receiver General's office, and he is obliged to pay 25 cents. The effect of it, I think, as you stated, would be that this notice of intention to borrow would state the amount that he intended to borrow, and the particular subsection under which the borrowing was done, and it would be filed in the office of the Assistant Receiver General. It would protect the merchant who was also a creditor of this farmer, if he cared to search this office.

Hon. Mr. FIELDING: There is something to be said in favour of Mr. Coote's amendment, but in my mind I do not see why we should make an exception in this particular case. I do not see why we should make an exception for the protection of the merchant.

The CHAIRMAN: Gentlemen, I hope it is understood what we are voting on. Mr. Coote's amendment means that any advances made under subsections 2, 8 and 12 of section 88, that the notice of intention—that is, live stock, seed grain and threshed grain—that the notice of intention to borrow shall state the amount intended to be borrowed. In all other respects the provisions of the sections would be applicable.

Amendment declared lost.

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The CHAIRMAN: There has been a verbal amendment suggested by Mr. Ross to subsection 4 of section 88 A, that in the sixth line, after the word "security," the words, "under section 88," be added. I think that will be acceptable.

Section 4, as amended, declared carried.

Mr. BAXTER: Yesterday, at my own suggestion, there was delegated to myself and other legal members of the Committee the question of the effect of the garnishment. We have not met, and I apologize for that, but I had a little conversation with Mr. Ross this morning, and I thought the matter over a bit, and I am going to suggest now that perhaps a conference of the legal members here would not get us very far. Even if we can agree, we cannot make a law, and no one can but the Judicial Committee of the Privy Council. Would it not be better if the Chairman took the official opinion of the Deputy Minister of Justice, and if he considers it may be in his opinion constitutional, let it go through. If he says it is not constitutional, we can strike it out.

Hon. Mr. FIELDING: I am content.

Mr. MARLER: Might I ask for a return to section 56, subsection 16. That was passed on the general principle yesterday, and the clause was to be re-drafted. That revised draft is now on hand, and I think we could clean that up in a minute or two. Here is the amendment:

"A person appointed under this section to audit the affairs of a bank shall not, during the term for which such person is appointed, either by himself, or by the firm of which he is a member, or by any other member of such firm, accept any retainer or undertake any employment on behalf of or at the instance of such bank or any officer thereof, whether at the expense of the bank or not, other than that of auditor hereunder; and failure to comply with the provisions of this subsection shall be an offence against this Act."

The purport of this, as now suggested, is that the auditor can act solely as auditor of the bank, and no additional work can be done by him through that bank at the instance of an officer of the bank. That is, if the bank wants any report on any outside company, corporation, or partnership, that outside company must ask the auditor, or another auditor must be employed. In other words, it makes somewhat more clear what I thought was a little indirect as it was formerly drafted.

Hon. Mr. FIELDING: I think the amendment serves the same end. I am content.

Amendment declared carried.

The Committee adjourned until Tuesday morning, June 5th, at 11 o'clock, a.m.

DISCUSSIONS

TUESDAY, June 5, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Before we proceed with the Bank Act I would like to place before the Committee a request by Professor Irving Fisher who asks to be supplied with 400 copies of his remarks before the Committee. Of course,

that may be done by making the usual charge; but it is a very small amount, and, considering the fact that Professor Fisher belongs to another country and that he was good enough to leave his college work to appear before us, which meant a loss of three or four days' time, it might be a gracious thing for us to present him with those 400 copies without charge.

Hon. MEMBERS: Carried.

Mr. GOOD: Just in that connection, there is a matter which has not been considered by the Committee, and that is whether there should be any reprint of the evidence which has been submitted so that it may be bound. I understand that it is customary—

The CHAIRMAN: That will be considered at the end of our meeting.

Hon. Mr. STEVENS: The printing Committee will control that.

The CHAIRMAN: We make our recommendation as to what we require.

On sections 101, 102 and 103.

The CHAIRMAN: These clauses have been passed, but Mr. Coote proposes certain amendments.

Mr. Coote moves:

"That section No. 101 be amended as follows:—

"The agreement of sale and purchase shall be submitted to the shareholders of the selling and purchasing banks either at the annual general meeting of the respective banks or at a special general meeting thereof called for the purpose.

"2. A copy of the agreement shall be mailed, post paid, to every shareholder of each bank to his last known address, at least four weeks previous to the date of the meeting at which the agreement is to be submitted, together with a notice of the time and place of the holding of such meeting."

These relate to the agreements between the buying and the selling bank in the event of a merger.

Mr. COOTE: I drew the attention of the Committee to the fact that the agreement should be approved by the shareholders of the purchasing bank as well as by the shareholders of the selling bank, and Mr. Ross has drawn the amendment which appears in the list of printed amendments.

Hon. Mr. FIELDING: Is that not what practically happens? An agreement implies that both are parties to it.

Mr. COOTE: It seems to me a rather peculiar thing that section 101 states specifically that the agreement of sale and purchase shall be submitted to the shareholders of the selling bank, but that it does not anywhere in the Act state that it should also be submitted to the shareholders of the purchasing bank. It is quite possible that the shareholders of the purchasing bank might object.

Hon. Mr. FIELDING: Insert the words "and purchasing bank".

The CHAIRMAN: Instead of striking out sections 101 and 102, we could do it more definitely by inserting a few words. After the word "selling" in the second line, we could insert the words "and purchasing banks," and then in the next line instead of the words "such bank" substitute the words "respective banks."

Mr. SHAW: I noticed a reference in a Toronto paper to the effect that there was the possibility of another bank merger. If it is proper at this moment, I would like to know whether or not the department has been approached in connection with any possible merger or combination of any

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other banks. The reference in the Toronto paper was, I think, to the Banque Nationale.

HON. MR. FIELDING: There is always talk of bank mergers. Mr. Shaw's question is whether we have been approached officially in the department. No, we have not.

MR. SPENCER: Would a merger be permissible without the sanction of the Finance Department?

HON. MR. FIELDING: They cannot do anything; they have to come to the Finance Department.

Section 101 as amended carried.

On section 102.

THE CHAIRMAN: Mr. Coote moves an amendment.

"That section No. 102 be amended by substituting the word 'each' for the word 'such' in the first line thereof."

Section 102 as amended carried.

On section 103.

THE CHAIRMAN: Mr. Coote moves the following amendment.

"That section No. 103 be amended as follows:—

"If the agreement provides for the payment of the consideration for such sale and purchase, in whole or in part, in shares of the capital stock of the purchasing bank, and for such purchase it is necessary to increase the capital stock of such bank, a by-law for the purpose may be passed by the shareholders at the meeting called to approve of the agreement."

MR. COOTE: I really did not have anything to do with the drafting of this amendment, and I would like Mr. Ross to explain it.

MR. ROSS: In order to give effect to Mr. Coote's suggestion that the purchasing bank as well as the selling bank should be consulted, it was necessary to make this change. It might be necessary, in connection with a purchase, to increase the authorized capital stock of the bank, and before capital stock can be increased there has to be a by-law passed by the shareholders of the bank authorizing the increase. This provision is, that if it is necessary to carry out an agreement to authorize the capital stock of the purchasing bank to be increased, that authorization may be granted at the meeting at which the agreement is approved by the shareholders.

THE CHAIRMAN: That is quite clear.

Section 103 as amended carried.

On Section 112.

MR. SPENCER: I do not know whether this is the proper time to bring up a matter to which previous reference was made: if not, you will correct me, Mr. Chairman. When we were discussing Section 54 we eliminated two clauses that the Minister had put in, clauses (m) and (n), one relating the appropriation account and the other to the contingent reserve, including, undistributed profits. The Minister stated that he would consider putting these in the returns sent to him by the banks. Would not this be the place for these two clauses to be inserted?

HON. MR. FIELDING: I did not say they would be put in; I said that the matter would be considered in relation thereto. The objection, I remember, was that the banks said that it was making a disclosure of their affairs which might alarm the people, and for that reason the change was proposed. A return has

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to be made up declaring that they had made the appropriations necessary to cover all doubtful and bad debts and so on, and the idea of showing their contingent reserve was strongly objected to by the banks. I thought then, and I still think, that they gave good reasons for that objection.

The CHAIRMAN: I think you had better take that up at another time, Mr. Spencer.

Mr. SPENCER: Under what clause should it be taken up?

The CHAIRMAN: When we are dealing with the schedules of section 54.

On subsection 3 of section 112.

Mr. SHAW: I move that after the word "agency" in the fourth line, the words "on or before the second day of the following month" be struck out. I think these words are absolutely useless though perhaps they may be of a little advantage to the banks.

Hon. Mr. FIELDING: Unless someone can show from experience that something has gone wrong because of this provision, I think it should be retained.

Hon. Mr. STEVENS: What has been the practice under the law as it stands?

Mr. SAUNDERS: We have had no trouble whatever.

Hon. Mr. FIELDING: There may have been trouble between the bank management and the manager of a branch, but so far as the returns to the Government are concerned, we are not conscious of any trouble.

Mr. GOOD: Can Mr. Saunders tell us the percentage of belated returns?

Mr. SAUNDERS: We would not know that; we would only know the number of belated returns from the head office to us.

Mr. Shaw's amendment declared lost.

On subsection 4 of section 112.

The CHAIRMAN: Mr. Fielding moves:

"That subsection 4 and 5 of section 112 be struck out and the following substituted therefor:—

"112 (4) The Minister may also call for other or special returns from any bank, and may require that the bank shall transmit or deliver such other or special returns at monthly or other prescribed periods, or whenever in his judgment they are necessary to afford a full and complete knowledge of its condition.

"(5) The Minister may prescribe the time within which such other or special returns shall be transmitted or delivered to him; but unless otherwise prescribed the time within which any monthly or other periodic return shall be transmitted or delivered, shall be the time allowed by this section for a monthly return; provided that the Minister may extend the time for transmitting any special return for such further period, not exceeding thirty days, as he thinks expedient."

Hon. Mr. FIELDING: These simply give the Minister larger power to call for those special returns at any time and under any conditions which in his judgment he deems reasonable. The difference between the Bill and the amendments is that the power of the Minister is broadened.

Section 112 as amended carried.

On section 125.

The CHAIRMAN: This section was allowed to stand over for some reason.

Mr. COOTE: I asked that it stand over for several reasons.

The CHAIRMAN: Mr. Hughes moves the following amendment:

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"That section one hundred and twenty-five of the Act be amended by adding at the end of subsection one thereof the following: 'provided, however, that any shareholder who is a director, general manager, manager, or other executive officer of the bank shall be liable to an amount equal to three times the par value of the shares held by him in addition to any amount not paid up on such shares'."

That is, Mr. Hughes seeks to introduce a quadruple liability instead of the traditional double liability. That is a pretty serious amendment. Do you still insist on it Mr. Hughes?

MR. HUGHES: I only submit it to the judgment of the Committee; I do not insist on anything. When Sir Edmund Walker was before the Committee, he made a statement which I think nearly every banker will agree with, that under the Canadian Banking System it is practically impossible for a bank to get into serious trouble and fail if the directors and executive officers do their duty. Now, the question arises, if those gentlemen do not do their duty, should a greater penalty not attach to them than is attached to the ordinary shareholders? I know of men who have lost money in bank stocks, who had no voice in the matter, but were ordinary people who invested in bank stock, and who when a failure occurred, as in the case of the Sovereign Bank, were aggrieved to think that they had a similar liability to that of the men who were actually responsible.

HON. MR. FIELDING: If it can be shown that a director of a bank has distinctly neglected his duty—I am not a lawyer, but I suggest that he would be liable to the shareholders who suffered loss on account of his neglect, by civil action. I think that every director of a bank in Canada can be prosecuted by any shareholder who has suffered loss on account of his neglect of duty. I am afraid that under the amendment suggested you would not get men to act as directors at all. Certainly it is desirable that we should have capable men for the board, and if you make too many penalties, even though they are not likely to be imposed, you are holding a threat over a man's head, and considering the small fee that a director gets, it would simply mean that you would not get men to act as directors.

THE CHAIRMAN: I think, Mr. Hughes, you had better ask leave to withdraw your amendment.

MR. HUGHES: I have great confidence in the Minister of Finance, and if he thinks that this would work injuriously, I am ready to withdraw it.

THE CHAIRMAN: Mr. Hughes asks leave to withdraw his amendment.

Amendment withdrawn.

THE CHAIRMAN: Mr. Coote has an amendment to this section.

"That section 125 be amended by striking out the words 'to an amount equal to the par value of the shares held by him, in addition,' in the fourth and fifth lines thereof."

You are striking out the double liability altogether?

MR. COOTE: Yes. Sir Edmund Walker, I think, makes a statement to the effect that nothing like 100 per cent of the double liability has ever been collected. We have loan companies in this country which are taking deposits and there is no double liability attaching to their shares. The same thing may be said of the trust companies. Some of the worst failures have been in connection with the loan companies, but nobody has suggested that a double liability should be attached to their shares.

HON. MR. FIELDING: We do not give the loan companies the privileges of circulation.

Mr. COOTE: The double liability clause is not generally regarded as vital to the security of the note circulation. It is put there largely for the protection of the depositors. We are supposed to protect the note circulation in another way, and so far as the general opinion of the country is concerned, the note circulation is fairly well secured without this double liability clause. I think that the result of this double liability attaching to bank stock has been an insufficiency of banking capital in this country. The general public are afraid to buy bank stock because of the double liability clause.

The CHAIRMAN: I will vote for your amendment in the House. I think it is a hardship on the shareholders. To my mind, it is not a logical thing at all.

Mr. COOTE: The double liability clause gives to the public a false idea of security, because the public think that the double liability can be collected. As a matter of fact, it has been proved in connection with I think all the bank failures in the past that it was only a very small percentage that could be collected. I would like to see this matter given every consideration by the Committee.

Hon. Mr. FIELDING: I am afraid I cannot agree with the Chairman. We give the shareholders who form a bank a free gift, to begin with, of the circulation; it is largely a free gift. That is a great privilege, and they have a right to assume special responsibilities by reason of that privilege. The double liability is one of the responsibilities they assume. Mr. Coote says that it is only from a small percentage that the double liability is collected. I do not know whether he has any figures to show what amount has been collected, but to the extent of the percentage that is collected, it is a protection. We all have to assume responsibilities for any undertaking in which we engage. I was impressed with the necessity of warning the people and I drafted a clause that those inviting subscriptions to a new bank must put at the head of the subscription list in prominent type that clause of the Bank Act. If you give a warning to the shareholder that he is assuming that responsibility, he must not complain afterwards if he is held to it. There was a case in my own constituency many years ago, before I ever became its representative; there was a bank failure which produced dismay in the community; men were ruined. However, having assumed the responsibility as shareholders they suffered, and in quite a number of cases it seemed a very great hardship. But it was a greater hardship to the depositors who lost their money. I think the double liability clause is a protection, and I am strongly against removing it.

Discussion followed.

Mr. GOOD: This is really an important and vital matter, and one that is rather closely linked up with the question of the note issue. I would therefore suggest that it stand over.

The CHAIRMAN: Let us get rid of it.

Mr. GOOD: I wish to express the hope that this will not be pressed to a vote now, as there is a very small attendance. There is a good deal to be said on both sides, and I scarcely think it is fair to ask us to make up our minds now.

Mr. Coote's amendment declared lost.

Mr. SPENCER: I think we should have a show of hands, as this is very important.

On a show of hands the amendment declared lost.

The CHAIRMAN: Mr. Hughes has another amendment.

"That Bill 83 be amended by adding thereto as subsection three of section 125, the following:—

"(3) Transfers or sale of shares of the bank by directors or other executive officers of the bank, made within a period of one year prior to

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any suspension by the bank of payment of any of its liabilities as they accrue in specie or Dominion notes, shall be null and void at the option of the transferee who may elect to return such shares or any of them to the transferor and be thereupon entitled to recover the amount of the purchase price thereof, and, in the event of such option being exercised the transferor shall be and become liable as a shareholder under subsection one of this section and the transferee be not liable in any respect whatsoever as to the said shares under the said subsection one hereof."

Do you wish to withdraw this amendment too, Mr. Hughes?

Mr. HUGHES: No, I would like to present it to the Committee.

The CHAIRMAN: Then, as it is one o'clock, we will deal with it again, the understanding being that section 125 is carried, as Mr. Hughes' amendment is really an addition.

The Committee adjourned until Wednesday, June 6, at 11 a.m.

DISCUSSIONS

WEDNESDAY, June 6, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Any motions?

Mr. WOODSWORTH: I have not got it exactly drafted but I would like to give notice of motion that Bill 83 be amended to the effect that the right of association by employees of banks for all lawful purposes should be recognized.

Mr. W. F. MACLEAN: Explain.

Mr. WOODSWORTH: The right of different groups of people to organize is very definitely recognized under the Peace Treaty of Versailles, but the bank clerks claim that their efforts to organize for their mutual benefit have often been discouraged by bank managers. This would simply put into the Act a clause frankly recognizing their right to organize for all lawful purposes.

The CHAIRMAN: The business this morning is consideration of Section 91 of Bill 83. There are several amendments proposed. Mr. Carmichael moves the following amendment:

"That section 91 be amended in the following particulars:—

"That subsection one be amended by striking out all the words commencing with 'but' in the fourth line down to the end of the subsection and by substituting therefor the following:—'but no higher rate of interest shall be chargeable by the bank, and the said rate of interest shall be reduced to the rate of seven per centum per annum from the date of judgment in any suit, action or other proceeding for the recovery of the amount due.'

"By adding as subsection (1a) the following:

"(1a) In any suit, action or other proceeding concerning a bank loan wherein it is alleged that the amount of interest paid or claimed exceeds the rate of seven per centum per annum, the court may reopen the transaction and take an account between the parties, and may, notwithstanding any statement or settlement of account, or any contract purporting to close previous dealings and create a new obligation, reopen any account already taken between the parties, and relieve the person

under obligation to pay from payment of any sum in excess of the said rate of interest and if any such excess has been paid, or allowed in account, by the debtor, may order the bank to repay it, and may set aside, either wholly or in part, or revise, or alter, any security given in respect of the transaction.”

Then Mr. Coote has an amendment which reads as follows:

“That section 91, subsection 1, be amended by striking out the words ‘or discount’ in the second line thereof and by striking out the word ‘may’ in the third line and substituting therefor the words ‘shall not.’”

Mr. Shaw also has an amendment which is similar to Mr. Carmichael’s, though a little more comprehensive. It reads as follows:

“That Section 91 be struck out and the following substituted therefor:—

“(1) The Bank may stipulate for, take, reserve, or exact any rate of interest or discount but not exceeding 7 per cent per annum and may receive and take in advance any such rate.

“(2) If any Bank shall stipulate for, reserve, exact, take, receive, or charge a rate of interest greater than 7 per cent per annum then the Bank, or any subsequent holder, shall be deemed to have forfeited the entire interest, which the note, bill, or other evidence of debt carries with it or which has been agreed to be paid.

“(3) In the event that a greater rate than 7 per cent per annum has been paid to the Bank, then the person by whom it has been paid, or his legal representative, may recover in any Court twice the amount of interest thus paid, provided such action is commenced within two years from the time such excess interest was paid.

“(4) In any suit, action or other proceeding concerning a bank loan wherein it is alleged that the amount of interest paid or claimed exceeds the rate of seven per centum per annum, the court may reopen the transaction and take an account between the parties, and may, notwithstanding any statement or settlement of account, or any contract purporting to close previous dealings and create a new obligation, reopen any account already taken between the parties, and relieve the person under obligation to pay from payment of any sum in excess of the said rate of interest and if any such excess has been paid, or allowed in account, by the debtor, may order the bank to repay it, and may set aside either wholly or in part, or revise, or alter, any security given in respect of the transaction.”

Mr. Coote has another amendment as follows:

“That section 91 be amended by adding the following: subsection thereto. 4—No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the Bank and the customer.

“56. That section 91, subsection 1, be amended by adding thereto the words ‘the rate of interest charged by the Bank shall appear on the face of the note’.”

These are, I think, all the proposed amendments to this section. I think we had better first consider the principle involved, and dispose of the amendments afterwards, if that is satisfactory to the Committee.

Mr. W. F. MACLEAN: What is the principle?

The CHAIRMAN: The principle involved in section 91 is this: That the banks may stipulate for, take, reserve or exact any rate of interest or discount

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not exceeding 7 per cent per annum and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank. I take it that the principle involved is the rate of interest. There is evidence before us that the banks by discounts and prepayments exact a higher rate of interest, 8, 9 or sometimes 10 per cent. I think there is no evidence that the rate ever exceeds 10 per cent.

Mr. GARLAND: I have.

Mr. COOTE: I know instances where they have charged as high as 12 per cent.

The CHAIRMAN: I think the issue is plain.

Mr. SPENCER: Before the discussion proceeds, I would like to ask the Minister a couple of questions with regard to subsection 2 of section 91. With regard to the return made to the Minister, I would like to ask, first, have the banks been making regular quarterly returns with respect to the rates of interest charged?

Hon. Mr. FIELDING: I so understand; they have.

Mr. SPENCER: Secondly, referring to subsection 2, it says they shall make a quarterly return to the Minister, giving such particulars as may be prescribed by regulations made by the Treasury Board. What regulations have been made by the Treasury Board?

Hon. Mr. FIELDING: No regulation has been made lately, but there must have been some old regulation, because returns are sent in. I laid them on the table of the House yesterday.

Mr. SPENCER: The same returns?

Hon. Mr. FIELDING: The returns under the Act.

Mr. SPENCER: Would these returns cover Canada as a whole, or can we get the different rates of interest that are being charged to different industries in different parts of the country?

Hon. Mr. FIELDING: I think that if you look at the returns which have been tabled, you will find that they cover most of the information asked.

Mr. CARMICHAEL: Are the amendments to be considered in the order in which they have been proposed? You will note that my amendment was put in on April 23rd, while the others were later.

The CHAIRMAN: We shall give you the right-of-way.

Hon. Mr. FIELDING: The question is one between the clause as it now stands and the various suggestions for limitation. That is the principle involved. Could we not discuss it on that basis, and have it voted upon on the question of whether we should accept the clause as it is, or put in some limitation. There is no material difference between the purpose of the various amendments; they are all aiming at limitations as against the clause as it stands.

Mr. CARMICHAEL: This interesting section of the Bank Act is one that has concerned me possibly more than any other portion of the Bill, not because of personal experience in being required to pay high rates of interest, but because from business experience and observations I have made, more particularly in connection with agriculturists in Western Canada, I am satisfied that the greatest burden that hangs upon the neck of Western Canada to-day is the interest that is being paid by individuals, by business men, and by corporations. I am satisfied that that constitutes a greater burden in Western Canada to-day than even the tariff, or some other matters of great importance that we debate to such a large extent. Possibly, in connection with the amendment which I have proposed I may refer to the very fatherly advice tendered to the members of this Committee by one of our large eastern papers. My attention was called to

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certain remarks made in one of our Montreal dailies, strongly advising the members of the Committee to certainly vote down any such proposal as the fixing of a maximum rate of interest. Well, the advice was given from one section of the country, and possibly it was sectional advice. At the same time, I could refer members of the Committee to very sane advice given in at least two of our western daily papers to the effect that if the members of this Committee would limit the rate of interest charge to 7 per cent they would do good to Western Canada to an extent that is almost inconceivable. So, there you have the two viewpoints, the eastern viewpoint that you should not limit the rate of interest, and the western viewpoint that we should.

I have evidence here as to what rates of interest are paid by the banks on deposits as well as the rates charged by the banks on loans. I do not need to refer to that; if it is called for, I can do so. But according to the evidence submitted, the general rate of interest paid on deposits is 3 per cent by the majority of the banks, and when they loan their money out the general rate charged is 8 per cent. Some strong corporations will get their money for a little less, and a great many farmers will pay considerably more. I know personally that a good many farmers pay 9 per cent, and some even 10 per cent. One bank in the West pays 4 per cent on deposits, and their average rate of interest on loans is 9 per cent. So you can see that the spread between the rate paid on deposits and the rate charged for loans is a spread of from 3 to 8 per cent or from 4 per cent to 9 per cent, which is practically the same spread of 5 per cent. That is what the banks claim they require to carry on business. I would just like to refer the members of the Committee to one year's operation of the banks in Canada. I have taken the year 1921, and I have got the bulk of this information from the Canada Year Book of 1921, or the Canadian Almanac of 1922. In the year 1921—we will consider the 17 banks of Canada, leaving out the Merchants Bank, because in the fall of 1921 it ceased to exist as a separate bank—the paid up capital of the 17 banks during that year was nearly \$119,000,000; the reserve fund was over \$123,000,000, and the profit of the banks during that year a little over \$22,000,000. Now, the average profit on the paid up capital was 18.72 per cent. The average profit on the paid up capital plus the reserve was 9.18 per cent. That reserve is not money, generally speaking; that was actually paid in, but it is accumulated profits set aside with the cash paid in on the capital.

Mr. MARLER: Might I interrupt my hon. friend for just one moment. He no doubt is aware that a great part of the reserve fund of the banks results from the sale of shares of stock at a premium. That is capital put in, it is not earnings put back into the reserve fund, but new capital put in, entirely. I only want to interject that remark.

Mr. CARMICHAEL: I am quite aware of that point, the reserve is made up of shares sold at a premium, plus profits. The point I wish to make is that the average profit on the capital is 18.72 per cent, while the average profit on the paid up capital and the reserve fund is 9.18 per cent for the 17 banks operating in Canada for the year 1921. Almost \$7,000,000 of the accumulated profit of that year was laid aside for reserves, for depreciation, for contingencies, for taxes, and so on, and the balance of a little over \$15,000,000 was divided out to the shareholders in dividends, with the result that the average rate of dividend on the capital alone was 12.87 per cent, while the average rate of dividend on capital and reserve was 6.31 per cent. That gives us just a short review of what the financial position of the banks during the year 1921 was.

Mr. W. F. MACLEAN: Does that include the profit they made on the use of their deposits?

Mr. MARLER: Certainly. *

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Mr. CARMICHAEL: That is the entire operation of the banks during that year.

Mr. W. F. MACLEAN: Then they were using deposits and rediscounts and so on?

Mr. CARMICHAEL: Yes. Now, I put a question to Sir John Aird when he was here on the witness stand, to the effect that if the banks were limited to a maximum of 7 per cent, what would be the result in the dividend that they would be enabled to declare, and he very meekly told us that their dividends would be reduced to probably 3 per cent. That would be horrible, would it not, if the banks were reduced to declare 3 per cent dividend on the capital and reserve, instead of 6.31 per cent. Last session I made a notation on the profits of the American railroads during this same year, 1921. I am not just sure where I got my information, but I have it in a memo that the American railroads during the year 1921, on their valuation, made a profit of 3.31 per cent, and they had no notion of quitting operations because they only made 3.31 per cent. Our banks feel that if we limited them to 7 per cent, they would have to reduce their dividends to 3 per cent, and, considering the years that have recently passed, 3 per cent would be a pretty fair profit on the year's operations. I think, Mr. Chairman, I can bring before this Committee not only hundreds, but thousands of agriculturists from Western Canada that would prove conclusively that during the year 1921, and possibly the two years preceding and one year since, they have not only not made 3 per cent, but they have not made any per cent, they have gone behind, they have gone away down into the hole, and they have gone there largely through the interest rates that they are compelled to pay. For instance, I had in my office last fall a young farmer in my own district. He was a man of a sort of clerical turn of mind who kept an exact record of all his business dealings during the year. He came in to pay his taxes, and everybody complains about the amount of their taxes there. He had 400 acres of land in that year, and his total taxes for the year were \$152. He thought that was too high; that included municipal taxes for road improvement; hospital taxes for free hospital attendance in a local hospital; it included hail insurance tax for protection against hail; it included a telephone tax for telephone service which he got; it included a public revenue tax for the upkeep of our province; it included school taxes for the education of his children. His taxes were \$152, and on his expenditure he showed me an interest amount that he paid in that year, and it was \$652.

Mr. MITCHELL: What is a hail tax?

Mr. CARMICHAEL: They have a municipal co-operative hail fund, and they are protected against hail. It is a charge against their property.

Mr. W. F. MACLEAN: What was his interest charge?

Mr. CARMICHAEL: \$652 was the interest he paid in one year, while his total taxes for these other purposes were \$152.

Mr. W. F. MACLEAN: Did you get the total amount he borrowed?

Mr. CARMICHAEL: I did not get the details, but I know he operates 400 acres of land; 160 was a homestead on which there was a mortgage; 160 was purchased, on which he was paying interest, and the other 80 acres were a purchased homestead, and the rate was rather low. In addition, he was owing the machine companies, and I believe they charge anything from 10 per cent to 12 per cent. He had a small threshing outfit, and he owed the bank a considerable loan on which I believe he was paying 9 per cent. Putting it all together, that was his total interest charge. That included everything, but let me point out that the rates which the banks charge govern largely the rates which are charged by other concerns. The bank was charging 9 per cent, I think the mortgage companies 8 per cent, and the machine companies 10 per cent to 12 per cent.

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Mr. CHAPLIN: He must have had liabilities of over \$7,000.

Mr. CARMICHAEL: I would not be prepared to say that; I was interested in the amount of interest he was paying. Now, if the banks were limited to a 7 per cent maximum rate, I am satisfied—

Mr. MITCHELL: What difference would it have made to that man?

Mr. CARMICHAEL: I am satisfied that not only would the banks have charged that, but the other companies would have been compelled to reduce their rates, so it would make a considerable difference to the companies as well as the agriculturists in general.

Mr. MARLER: That is a very important point, that if the banks reduced their rate of interest the mortgage companies, the machine companies, and various other companies would likewise have to do so. I wonder if you would elaborate that a little?

Mr. CARMICHAEL: I can only give my opinion, and that is that if the banks are limited to 7 per cent, I am satisfied that the other corporations will be compelled to reduce their interest charges.

Mr. MITCHELL: Supposing, Mr. Carmichael, that the banks refused to loan at 7 per cent, will they not have to go to other companies that are allowed to charge a higher rate of interest?

Mr. CARMICHAEL: That argument was put forth, that the banks cannot do business if they are compelled to loan at 7 per cent.

Mr. IRVINE: Do you not think if the banks are paying 3 per cent interest for money on deposit, that they would be glad to loan it at 7 per cent? They could not afford to keep it in their tills.

Mr. CARMICHAEL: The spread, as pointed out before, is 5 per cent, which the banks claim they need to meet overhead expenses, carry on business, and declare a dividend, which of course the shareholders look for. Let us look at the Australian Commonwealth Bank, which is the only Government owned—

Mr. HUGHES: Might I make a suggestion here; the banks cannot, as I understand it, loan all the money they receive on deposit. They must keep a certain amount in reserve. What percentage would they have to keep in order to meet their daily obligations, and what percentage would they be obliged to loan at a very low rate of interest on immediately convertible security to meet their daily obligations?

The CHAIRMAN: They must keep 40 per cent of their cash reserves in Dominion notes.

Mr. HUGHES: So the spread is not 5 per cent, or anything like it.

Mr. CARMICHAEL: I am going to touch on that, from another point of view. Take the Australian Commonwealth Bank, the only Government owned and operated bank, I believe, in the British Empire. It has been in business for 10 years. On savings deposits it is paying depositors from 3 per cent to 4 per cent, according to the amount of money that is deposited and the length of time for which the deposit is made; 3 per cent in some cases, $3\frac{1}{2}$ per cent in others, and 4 per cent in others. Now, the maximum rate of interest that the Australian Commonwealth Bank charges, is 6 per cent.

Mr. W. F. MACLEAN: Is that observed, as far as you know?

Mr. CARMICHAEL: Observed absolutely. To municipalities, to churches, to charitable institutions which are non-profit making, they lend money at $4\frac{1}{2}$ per cent and 5 per cent. To business men and other individuals 6 per cent is the maximum charge.

Mr. W. F. MACLEAN: That includes farmers?

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Mr. CARMICHAEL: Yes. The lowest interest they pay on a deposit is 3 per cent; the highest rate they charge is 6 per cent, and the spread is 3 per cent. In ten years, the profits of the Australian Commonwealth Bank have been \$18,432,648.

Mr. W. F. MACLEAN: What do they do with these profits?

Mr. CARMICHAEL: These profits belong to the people; it is a part of the people's business.

Mr. LADNER: Is that fixed by statute?

Mr. CARMICHAEL: I do not know, but that is the maximum rate of interest. They have no capital invested. They started business on the savings of the people, as well as Government money and money handled by municipal corporations. There is not one dollar of capital invested, but yet the bank is prospering, and in ten years has made over \$18,000,000, on a spread of 3 per cent.

Mr. MARLER: Might I interrupt you again. Have you ever looked at the statement of the Commonwealth Bank, and seen the amount of loans actually made to the farming community, or loans of that description, of the amount they have on deposit? If so, did you not find there that the greater part of their loans were made to municipalities, and loans of that description; they were not what we would call current loans.

Mr. CARMICHAEL: I have looked into that point, and I am prepared to admit that a large percentage of the loans are made to corporations at $4\frac{1}{2}$ per cent.

Mr. MARLER: In other words, the Commonwealth Bank being a Government banking institution, you would rather expect them to make loans to the rural population.

Mr. CARMICHAEL: They do, to some extent, and they are increasing.

Mr. MARLER: To some extent, but not to the extent they should meet them; the amount of the loans to rural people is not in proportion to the entire amount of their resources.

Mr. CARMICHAEL: For this reason, that they are only starting in, without capital.

Mr. KELLNER: I rise to a point of order; I do not consider that that discussion is in order at all.

THE CHAIRMAN: You mean Mr. Carmichael's discussion?

Mr. KELLNER: No, the questions in regard to how the Commonwealth Bank lends money.

THE CHAIRMAN: Then Mr. Carmichael's discussion would be out of order as well.

Mr. W. F. MACLEAN: No. My friend on my left has no right to bring that into the discussion.

THE CHAIRMAN: Gentlemen, I think we had better allow Mr. Carmichael to complete his statement.

Mr. HUGHES: Might I ask one question. Does the Commonwealth Bank pay any taxes?

Mr. CARMICHAEL: No.

Mr. LADNER: Do you know, Mr. Carmichael, how much the Commonwealth Bank has advanced in ordinary loans to customers?

Mr. CARMICHAEL: I have the information, but it will take some time to look it up.

Mr. LADNER: Have you this statement of the Commonwealth Bank of December 31st, 1922?

Mr. CARMICHAEL: No.

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The CHAIRMAN: Gentlemen, I do not think it is very instructive to the Committee to have Mr. Carmichael asked so many questions as he proceeds.

Mr LADNER: When a member of the Committee is touching upon an important point like that, it is much clearer to the members if the information relative to that can be brought out.

THE CHAIRMAN: Very frequently that is correct.

Mr. LADNER: Here, Mr. Carmichael is talking about the Commonwealth Bank of Australia, and referring to the rate of interest charged. I propose to ask two or three simple questions to show from their last statement, which I have received, the amount which they have in British investments, and the amount they loaned to customers. They are loaning on foreign security.

The CHAIRMAN: We will allow you to bring that out later.

Mr. CARMICHAEL: I assume any member of the Committee will be free to bring forth any additional points in connection with this bank that they think advisable. The point I wish to emphasize is that this bank is doing business on a spread of 3 per cent, while they are doing a large part of their business with municipal corporations, they are also doing a considerable business with business men and other individuals. The spread between the interest on deposits and the interest charged corporations is $1\frac{1}{2}$ per cent to 2 per cent, while the spread with our Canadian banks is from 3 per cent to 7 per cent or $7\frac{1}{2}$ per cent, or a spread of 4 per cent and $4\frac{1}{2}$ per cent. Now, possibly one or two per cent does not look very big just looking at the actual one or two, but when you figure that out on large sums of money, it amounts to a considerable sum. I do not know that I need bring forth any more information in regard to the advisability of fixing the maximum rate. The amendment which I have proposed is not as drastic an amendment as perhaps it might be; in fact, I think that is the reason that we have another amendment proposed by Mr. Shaw. to this same section. The amendment that I propose says that no higher rate of interest shall be chargeable by the bank, and if it comes to a court case all they can collect is 7 per cent. Now, that leaves the way open, I will admit, for an individual to enter into an agreement with the bank to pay 8 per cent or 9 per cent, if he wishes and the bank cares to take a chance, but if it ever came to a court case, the bank could not collect any more than 7 per cent. I will admit that I am leaving in this proposed amendment a certain amount of personal liberty, which we all so highly admire. We do not like prohibition, at least some of us do not, and we think there should be a certain amount of personal liberty. If an individual, is bound to have money, and is willing to pay 8 per cent or 9 per cent, we think he should have the privilege. I am prepared to concede that point, that the individual may enter into an agreement to pay 8 per cent if he is anxious to get the money and the bank cares to take the chance. If it comes to a court case, the bank can collect no more than 7 per cent, if this amendment should be acceptable.

Mr. SHAW: Might I ask a question. What rate of interest could the bank collect now? That is, in the event of a court case?

Mr. CARMICHAEL: The bank discounts a note now at 8 per cent or 9 per cent, and they do not collect; they keep it. The individual cannot recover.

The CHAIRMAN: So your amendment offers no change whatever.

Mr. SHAW: Except that it allows the bank to charge 7 per cent, whereas now they can only collect 5 per cent. Now, the banks can only collect 5 per cent.

Mr. CARMICHAEL: I will leave that point to be argued later on. I would recommend the principle at least to the Committee. Even the old section 91 states that no higher rate of interest than 7 per cent shall be recoverable; this

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point has been debated in this Committee before, and the Committees in the past have seen fit to mention 7 per cent. I do not know why, but they must have seen that the actual mentioning of 7 per cent was something of a guiding star to the rates that would be charged. Now, I would submit to the Committee the advisability of just making that a little more restricted; leave it at 7 per cent, and make it a little more restricted, so that the banks are not going to feel that that 7 per cent is not worth having, but that they can charge whatever they like, and not only charge it, but recover it.

Mr. LADNER: You advocate the fixing of the rate, as a matter of principle. Would you fix the price of other commodities; do you believe in that principle?

Mr. CARMICHAEL: For instance, what commodity do you refer to?

Mr. LADNER: Any at all, the prices of commodities, merchandise, or anything else, as a matter of principle.

Mr. CARMICHAEL: In accordance with due profit, yes.

Mr. LADNER: You believe in parliamentary legislation fixing prices on commodities?

Mr. CARMICHAEL: Of course, when you mention that, you open up a very large field; you open up a field where it is almost impossible to say yes or no to.

Mr. LADNER: As a matter of principle, would it not be consistent to do so?

Mr. CARMICHAEL: Parliament in the past must have thought that the principle of 7 per cent was necessary, or it would not have been in this section. 7 per cent is mentioned. Why? Why was it mentioned "7," why not leave it wide open? If the argument is sound that it is necessary to leave the field wide open, why mention it?

Mr. W. F. MACLEAN: In other words, the honourable gentleman is urging to wipe the 7 per cent out?

Mr. CARMICHAEL: Yes; if 7 per cent were not there, I could see some force in the argument that there should not be any set rate whatever, but it is there, the principle has been admitted in the past that it is necessary to have some restriction. It appears a restriction, but in actual working out it has not been one.

Mr. MITCHELL: Do you know, Mr. Carmichael, that they have gone through all this reasoning in England, and now they have abolished the fixed rate altogether.

Mr. CARMICHAEL: If the members of this Committee are not going to do something to establish the maximum rate, we might as well abolish it.

Mr. MITCHELL: I do not know that it would be a good thing for the farmers of the West, if it were abolished.

Mr. SHAW: Perhaps I can say what I want to say in connection with this matter now, if you do not mind my standing up here. I think we can say this, that while this section of the Bank Act is actually the same as in 1913, yet an investigation of the facts indicates that that section is not sanctified by that age which, it occurs to me, should relegate it from discussion.

Now, the first thing I want to suggest in connection with the discussion of this matter of principle is that if the law of supply and demand operated, and if competition prevailed, then I am one of those who would favour the elimination of the section entirely from the Act. However, if these conditions do not prevail, as I propose to suggest they do not, then some restrictive section must be imposed. Lacking competition, it is our duty to impose some section here which will create a limit as far as banking interest is concerned. Now, it occurs to me that in a country like Canada

there is perhaps a logical method by which to fix an interest rate. I have no doubt that down in the Province of Prince Edward Island and the Maritime Provinces, 6 per cent would probably be an excessive rate, whereas I have no doubt also that in western Canada it cannot reasonably be urged that 7½ per cent, is unreasonable, under present existing conditions. These conditions change from time to time; they do not run just in ten year cycles, but change. They change from year to year, sometimes from month to month. The result is that if you are going to prescribe a maximum interest rate, you will have to perhaps divide Canada into various zones. That would depend on the conditions you have to deal with. To impose an interest rate of say 7 per cent as a maximum prevailing all over Canada, might be looked upon by the banks as an invitation to charge 7 per cent in eastern Canada, where perhaps 6 per cent would be an excessive rate. I am only, in that respect, reiterating the arguments of the former Minister of Finance, at the time this revision took place some ten years ago. If you had zones in Canada—and I only suggest this by way of giving some idea of what I mean—if you had three interest zones in Canada—the Maritime Provinces, the central provinces and the western provinces—and an authoritative Commission on banking, perhaps the Treasury Board, from time to time fixing the maximum rates that should prevail, then I think you would have a method of adjusting this matter which would work out satisfactorily.

Mr. W. F. MACLEAN: Would that include time zones, too?

Mr. SHAW: You mean, with regard—

Mr. W. F. MACLEAN: With regard to the ten years.

Mr. SHAW: No, I should say that such a Commission should have the right to fix interest rates from day to day, if they thought it desirable, according to the condition of the money market and so on. That occurs to me as the logical way to meet this situation. If you are not going to do that, then the only other way is to fix a rate which, in the judgment of the Committee, will best meet the interests of all Canada, and then I would suggest that it be revised much more frequently than ten years. However, the suggestion I make would be that some banking commission, Treasury Board, or some other competent body should have the right to fix the rates from time to time.

Now, the first question which one must consider is as to whether or not competition keeps down the interest rates in Canada. It may be only a coincidence, but it is a fact that in various communities in Canada, where there may be half a dozen different banks, they are all charging exactly the same rate of interest. The banks all over Canada allow exactly the same rate of interest on deposits. If there is competition among the banks, it seems to me that it does not apply, so far as interest rates are concerned, either to borrowings or to deposits. It may apply, so far as services rendered are concerned. May I illustrate that by giving in a concrete way these facts: In the little town of Grand Prairie, in the northwestern part of Alberta, there are some five branches of Chartered Banks of Canada. The interest rate in all these branches is 10 per cent; that is the rate charged to borrowers and by way of discount at that. So, I suggest that there is no real competition among the banks so far as interest rates are concerned. The rates are uniform and whether or not that is done by way of agreement is perhaps a matter open to debate.

Mr. W. F. MACLEAN: Have the banks any association for that purpose?

Mr. SHAW: They have an association but the fixing of rates does not enter, so far as the law is concerned, into their powers. I would like to illustrate

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what I have to say by reference to the report of Professor McGibbon who, I may inform the Committee was appointed by the Government of Alberta to investigate banking problems in that province. He travelled over the entire province and investigated the situation, and I may say that he is a highly competent gentleman to do that work. He made a complete report covering the various matters which came under his observation and within the scope of his authority. He dealt not only with the matter of excessive interest rates, but also with the matter of discounting. I desire to refer to this matter of discounting for the purpose of suggesting what happened in connection therewith. It appears, according to the evidence which was produced before Professor McGibbon, that whereas a year or two previously the banks had not as a matter of practice charged discount, they suddenly, without any explanation to the borrowers, adopted this practice of discounting notes; that is taking the interest in advance. Professor McGibbon investigated that matter. He asked the superintendent of the Alberta branches of the bank of Commerce this question:

"Q. Was there any understanding between the banks recently about that policy in the West?"

He is referring to the policy of discounting. The answer was:

"A. So far as our own organization is concerned, we found that in some branches the practice had leaked in of making exceptions to the rule of discounting.

Q. Was there any general arrangement that hereafter the banks would confine themselves to discounting?—A. No, I would not call it that. I believe there was a discussion of the subject among the banks at Winnipeg, and it was considered that it was a mistake to depart from the practice. I am satisfied that there was no hard and fast agreement."

A little further on he was asked this question:

"It was an understanding so far as you were concerned?—A. So far as we were concerned, we decided it was a wrong practice to depart from the old custom.

Q. You discussed it?—A. We discussed it with the other banks, yes. Those things come up at the meeting of the men interested in that business, the same as in any other business.

Q. And the banks naturally discuss very—discussed various aspects of that with a view of deciding upon a general policy?—A. Yes, that I presume was the purpose of the Canadian Bankers Association.

Q. I understood it was a meeting in Winnipeg? It was the Canadian Bankers Association, was it?—A. No, but I say that was the purpose for which the Canadian Bankers Association was organized. There is a subsection of the Organization in Winnipeg.

Q. And it was in that Section that it was discussed?—A. Yes, I think so.

Q. And in accordance with that there was this general, will I say, readoption of the policy?—A. Not so far as my own institution is concerned, which is the only one I am qualified to speak for. We did not wait for anything of that kind. The instructions were sent out from Winnipeg to my knowledge, before there was any, certainly before we knew there was any agreement between the banks at Winnipeg in general."

He said that was the practice of their bank and by reason of some vague understanding at Winnipeg the policy was generally adopted. Mr. John

Kennedy, superintendent of the Alberta branches of the Bank of Montreal, also gave evidence on this point before this Commissioner. He says:

"It was considered at the meeting of the banks. In considering it they felt that to have one practice in one part of the country not in vogue in the other was not good business, and instructions were issued to the banks to discount.

Q. In certain areas?—A. No, I do not think there was. Then banks discussed it, but perhaps the general manager did not know it existed until that time.

Q. That would be until about a year ago?—A. Two years ago."

I am simply quoting this for the purpose of suggesting that apparently there was some arrangement in the western section of the Canadian Bankers Association by which the practice of discounting, which is very objectionable to western farmers, was to be put into general practice. There is no doubt that they have the right under the Section to do that, but the point is that they had not been doing it out West, and suddenly they resolve to do it as the result of a general meeting.

Mr. MITCHELL: Did they fix the rate of interest?

Mr. SHAW: No, there is no suggestion that they fixed the rate. My point is that if they agreed on concerted action with regard to the practice of discounting, it is not unreasonable to suppose that they agree also so far as interest rates are concerned. It seems a strange coincidence, to put it mildly, that banks in the same place should be charging the same rate of interest, and the same rate of discount.

I have mentioned something about discounting; that is a practice which is generally carried on, so that if a man has to pay 9 per cent discount, he not only does not get the money he applies for, but he pays a much higher rate of interest than appears on the face of the note.

There is another practice which has been to some extent carried on, and that is the practice of compounding the rates of interest. The banks, as a general rule, fix the date of their notes so that they are payable in three or four months, sometimes longer. The great majority are payable in three months, and failure to pay principal and interest at the due date results in the principal and interest being compounded, and a new note is made out for that amount. Now, that works a very serious hardship. The effect of this practice of charging discount and compounding interest is necessarily to increase the interest rate much above the general rate in Canada, that is the rate fixed as a maximum by statute.

I now intend to give some particulars with regard to the excessive rates of interest charged.

May I just give you a very few instances from the report of Professor McGibbon indicating some of the excess interest rates, and may I predicate my remarks by saying that it is the opinion of men who ought to know that the farmer in western Canada cannot pay more than 8 per cent and hope to succeed. Unusual cases may occur, but in the great majority of cases, the farmer cannot afford to pay more than 8 per cent.

Mr. CARMICHAEL: Do you mean 8 per cent or 7 per cent?

Mr. SHAW: I mean 8 per cent; that is the statement I have, and I think you will find it incorporated in Professor McGibbon's report. That is the maximum, and it is not everyone who will succeed if he pays that rate. With regard to the rates charged, I have a memorandum here which you will find incorporated in the evidence taken by Professor McGibbon. The Union Bank of

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Canada charged 9 and 10 per cent at its branches in Foremost, Macleod, Pincher Creek and Grande Prairie. These are dry areas in the province and the people there are a class who can least afford to pay excess interest rates. During the course of the investigation, which was a public investigation, some of the evidence appeared in one of the newspapers, and Mr. Robson, general counsel for the Union Bank of Canada, and a director of that Bank wrote to the Commissioner and complained of the publicity which was being given to the bank affairs, and he urged in extenuation of the policy of the bank just two defences. He spoke of the generosity of the Bank, and mentioned that before the banks entered Alberta an interest rate of 24 per cent was charged. Of course, that must have been considerably over thirty years ago.

Mr. MITCHELL: You mentioned four or five places where they charged ten per cent. How many branches had the Union Bank in western Canada at that time, do you know?

Mr. SHAW: No, I do not know.

Mr. MITCHELL: Evidently, the reference is to four or five places out of the total number of their branches.

Mr. SHAW: I have only given you some cases, not all. At Youngstown, 10 per cent was charged by the Bank of Toronto. This is rather interesting: A representative of the Canadian Bankers' Association attended all the sittings of the Commissioner.

Mr. W. F. MACLEAN: What was his name?

Mr. SHAW: I cannot tell you at the moment. He is a superintendent for one of the banks, and he claimed that a 10 per cent interest rate charged in that particular locality was in the nature of a penalty, or, as he called it, a surgical operation. It certainly had the effect of a surgical operation, and as in the case of other surgical operations there was great peril that the patient would suffer more than mere inconvenience. There are many other instances of excess rates charged by the Bank of Commerce.

Mr. MITCHELL: How many cases? Have they detailed them all in that report?

Mr. SHAW: No, I do not know that he details them all.

Mr. MITCHELL: Yes, they do; they detail every case.

Mr. SHAW: I have not given all the details in the report. The gentlemen here from Alberta say that the banks there were discounting at 10, 11 and sometimes 12 per cent.

Mr. KELLNER: I have one here from Saskatchewan at 10 per cent, a discounted note.

Mr. SHAW: The evidence given by the manager of the Weyburn Security Bank quite clearly proves that the average is certainly not less than 9 per cent. That being so, the bank charges what rate it desires, and one is naturally concerned to find out in what respect, if any, the proposed legislation of the Minister is defective. The section simply provides

"The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding seven per cent per annum and may receive and take in advance any such rate, but no higher rate of interest shall be recoverable by the bank."

That section, I suggest to the Committee is simply the purest camouflage. It is a sort of smoke screen behind which the banks can charge any rate they can agree upon with the borrower.

Mr. W. F. MACLEAN: Are they limited when it goes to court?

Mr. SHAW: I will tell you about that in a moment. Why is this section useless? There are several reasons. First of all, the word used there is "recoverable"; no higher rate of interest shall be recoverable by the bank. That is, if the bank commences an action on a note which is unpaid, then it cannot collect more than the legal rate of 7 per cent. There is also this fact which I think Mr. Carmichael has overlooked, that is, for instance, if a borrower gave to the bank a note bearing interest, we will say at 10 per cent for the sake of illustration, and the bank in an action seeks to recover the amount of the note and interest, they can only recover at the rate of 5 per cent per annum, because in the case of the Union Bank versus McHugh, it was held by the Privy Council that an illegal rate of interest had been charged, and therefore the bank could only recover 5 per cent.

Mr. CARMICHAEL: If the bank had already the interest from discounting, they have no interest to recover.

Mr. SHAW: You do not meet that situation either in your amendment.

The CHAIRMAN: Mr. Carmichael's amendment is not really amendatory; it refers entirely to the position of a judgment creditor.

Mr. SHAW: It is restricted to the judgment creditor. Mr. Carmichael and I have exactly the same purpose in mind, we want to make that clause restrictive and watertight; but I suggest to the banks that they could accept the amendment proposed by Mr. Carmichael and be in a much better position than they are now. The first objection to the clause is that it provides that no high rate of interest shall be recoverable by the bank. That contemplates proceedings of some kind or another and in such proceedings, if the question is raised, and only if the question is raised, they cannot recover more than 7 per cent. If the question is raised in an action and it charges higher than 7 per cent, it can only recover 5 per cent. I direct Mr. Carmichael's attention to the fact that the section as proposed in his amendment gives absolutely no right to the borrower to recover the excess interest paid. Unless he has that right, he is in a helpless position, because the courts have held under this section that if a man enters into an illegal agreement with the bank to pay more than 7 per cent, he is in equal guilt and cannot recover the excess interest paid. I think I am stating the law correctly in connection with that matter. In addition to that, neither under this section in the Act, nor under Mr. Carmichael's proposed amendment are the banks charged the slightest penalty in the event of the violation of the Act. For instance, suppose the banks charge 10 per cent, what penalty does this Act impose upon them. It is not proposed under this section that there should be a penalty, and if you will look at section 157, I think, which is the general penalizing clause of the Bank Act you will find that it states this:—

"Every person committing an offence declared to be an offence against this Act, shall be liable to a fine not exceeding one thousand dollars, or to imprisonment for a term not exceeding five years, or to both, in the discretion of the court before which the conviction is had."

Now, if it were proposed to penalize a violation of Section 91, you would have to put in a clause that if a bank charged a higher rate than 7 per cent, it would be guilty of an offence against this Act, and that would make it liable to the penalties set forth in Section 157. But neither in the Act as brought down by the Minister, nor in the amendment proposed by Mr. Carmichael is provision made for a penalty of this character.

May I say just one or two words in connection with the amendment which I propose. I may say for the information of the Committee that this amendment has been drafted from the National Bank Act under which the American National Banks are incorporated.

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The CHAIRMAN: Do you mean the whole four sections?

Mr. SHAW: No. I am not sure that it is drafted in exactly the same terms, but it is substantially the same. I am not wedded to this particular form in any way; I realize that the practice of discounting as it has been practised is rather reprehensible, and I have no objection to considering the leaving out of that particular power given to the banks to discount notes. You will note several things in connection with this amendment. Perhaps I should say that there have been many decisions in the United States' courts under a similar provision to the one I now propose, and in all cases, I think, it has proved an effective controlling restrictive provision. The first clause, or first subsection, indicates the powers of the banks. They can only take 7 per cent per annum, and I have given them in that clause the power to discount notes. The rate of interest must not exceed 7 per cent. The second clause provides:

"If any bank shall stipulate for, reserve, exact, take, receive, or charge a rate of interest greater than 7 per cent per annum then the bank, or any subsequent holder, shall be deemed to have forfeited the entire interest, which the note, bill, or other evidence of debt carries with it or which has been agreed to be paid."

The reason for including the subsequent holder is that he would probably get this note in due course, and he would know as well as anybody else whether it was illegal, so far as the interest rate is concerned, and would take it at its face value.

Mr. MITCHELL: How would he know that?

Mr. SHAW: The note usually bears the rate of interest on it.

Mr. MARLER: Not on discount.

Mr. SHAW: It would be his business to enquire if he bought a note from the bank.

Mr. W. F. MACLEAN: It could be endorsed on the note when it goes through.

Mr. SHAW: In case the bank charges a higher rate I say that they "Shall be deemed to have forfeited the entire interest, which the note, bill, or other evidence of debt carries with it or which has been agreed to be paid."

Mr. W. F. MACLEAN: Is that in the American law?

Mr. BAXTER: He may not buy that from the bank. The bank may sell it to the holder in fee. He may sell it to somebody else.

Mr. SHAW: Any subsequent holder would have notice?

Mr. BAXTER: That the transaction was originally with the bank?

Mr. SHAW: Yes, he would have notice of that fact.

The CHAIRMAN: Unless there was a statement on the face of the note there would be nothing to indicate that.

Mr. MITCHELL: The bank might say that they were charging an illegal rate and hand the note to the man who would take it in good faith.

Mr. SHAW: If the borrower misrepresented the situation, his remedy would be against the bank.

Mr. MARLER: How would you make proof?

Mr. SHAW: In the same way as you do in other cases.

Mr. MARLER: By the ordinary rules of evidence?

Mr. SHAW: Yes.

Mr. MITCHELL: You should insist that it be printed on the face of the note.

Mr. SHAW: I have no objection. I think that is an amendment that would be very desirable. I think it is one of the recommendations incorporated in Professor McGibbon's report.

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Mr. BAXTER: Mr. Coote's amendment reads "The rate of interest charged by the bank shall appear on the face of the note."

Mr. SHAW: I would have no objection to that. In combination with this clause it might be a necessary and perhaps a proper safeguard. The third clause of my proposed amendment reads:

"In the event that a greater rate than 7 per cent per annum has been paid to the bank, then the person by whom it has been paid, or his legal representative, may recover in any court twice the amount of interest thus paid, provided such action is commenced within two years from the time such excess interest was paid."

Now, in the Minister's proposal, and in Mr. Carmichael's proposed amendment, as I have already stated, no remedy whatever is given to the man who has paid excess interest. In fact, he is barred specifically from the courts. The last clause is simply that in the event of the court finding in any action or proceeding before it that a greater rate of interest than the legal rate has been paid, that rate may be modified in accordance with the law. I suggest that the amendment which I have proposed constitutes an effective section. Some slight changes may be necessary here and there, perhaps, to make it work more effectively, but I submit that it does constitute an effective restrictive section, and I think that unless we are prepared to impose some obligation of that character, we should not camouflage the issue at all.

Mr. W. F. MACLEAN: Did you say that the law which applies to American banks is your amendment?

Mr. SHAW: This is almost an exact replica, in some sections at least, of the provisions of the American National Bank Act. I glanced over a list of decisions the other day under similar sections, and I think it can be said that the sections incorporated in the American National Bank Act have been effective controlling sections.

Mr. W. F. MACLEAN: That is the point; you can prove that if you have to?

Mr. SHAW: Yes.

Mr. LADNER: I would like to say a word or two on this rather important question.

Mr. W. F. MACLEAN: Are we not to hear the proponents of the different amendments first?

The CHAIRMAN: I cannot lift them up.

Mr. LADNER: For myself I believe that some method of prohibiting or preventing exorbitant and unfair rates of interest should be brought about if possible from an economic point of view. Really, what should more concern Parliament to-day than trying to fix for one class of business a rate of interest at 7 per cent is the necessity for putting a stop to the loaning of money at 20, 40 and 50 per cent which goes on every day and is ruining many people. We would be doing a greater service to the public if we could stop that kind of thing. In this particular case, we are faced with a simple economic question. The principle involved is, is it sound economics to fix a rate of interest? Now, money is a commodity, just like any other commodity.

Mr. IRVINE: Are you aware that the bankers deny that?

Mr. LADNER: I am not speaking for the banks, I am trying to speak for the public at large, and in my recollection, I do not think that the banker's would deny any such principle as that. Any student of elementary text books on economic problems and economic history knows from experience and from history that money as represented in credit instruments, is in fact a commodity.

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Now, if you are going to put in the legislation of this country a principle fixing rates on the commodity of money, then it would be equally in order to fix rates on a great many other commodities. I do not think that there is a single member of this Committee who, in face of world conditions to-day would advise from an economic point of view the fixation of prices on general commodities.

Mr. SHAW: Do you favour the fixing of railroad rates by the Railway Commission? or would you have no regulation at all?

Mr. LADNER: The question of railway rates is entirely different, and the same principle is not involved.

Mr. W. F. MACLEAN: The railways are under a general Act, and the banks are under a general Act.

Mr. LADNER: I am not going to take up the time of the Committee by getting involved in a discussion of extraneous problems on which hours have been wasted. Railway rates are an entirely different proposition. Money is a world commodity which goes from one country to another according to economic principles. Railroads have their tracks fixed in certain localities where there are great and small communities, and justice can only be done to those communities and to the country at large by fixing the rates under the Railway Commission. The circumstances are entirely different. Anybody from Europe or from the States can bring money into this country and start a bank or a loaning company and loan money out in any place throughout the country, but they cannot bring in railway lines and put them down. They could not bring the New York Central, for instance, and place it in this country.

Mr. IRVINE: I want to challenge this commodity idea of money. I would like to ask what a commodity is, if money is that.

Mr. LADNER: I do not want to get involved in any theoretical arguments. In my university days I studied those involved theories which in the ultimate analysis amount to nothing more than mental gymnastics which are confusing to the propounder and dismaying to the public at large. I am not entirely ignorant of those problems, socialistic or otherwise; I have given some study to them. But here we are faced with a simple principle of whether we can fix rates and whether Parliament should do so. I say we should not.

Mr. W. F. MACLEAN: Would you repeal the Act as it is now?

Mr. LADNER: Yes, I would repeal that Section of the Act. Economically, it is unnecessary and unsound. If you fix the rates of bank interest, and then allow loan companies, rural credit societies, big money lenders, and everybody else, loan unlimited capital without fixation of interest rates, what would happen? Capital would go from banking into other channels and from Canada to other countries where they would get more revenue on their investment. When you start fixing the rates of interest on bank money, you have to extend it to all money, or you would have a state of affairs that would be simply ridiculous and ruinous in this country.

Mr. WOODSWORTH: You are stating an economic principle, that it will not do to fix prices. Does not the soundness of that principle involve free competition?

Mr. LADNER: I did not make any statement that we should fix prices; I do not believe we could. What I am saying is this; fixing the rate of interest is a practical question, and I say if you fix the rate of interest, every other company should have a rate fixed, every loan company and private company, and every form of capital. More than that, you must fix prices too, and you come to a situation which experience and recent history has shown to be unsound. I do not think there is a member of the Committee who would stand

behind any proposal for a general fixing of prices of commodities, or a general fixation of interest on all kinds of capital. You cannot do it; capital would walk out of here and go where it was not subjected to such restrictions.

Mr. W. F. MACLEAN: You can, to a certain degree; have we not the right to regulate their procedure?

Mr. LADNER: You cannot lay down a general proposition like that. You have to have a definite concrete proposition. There is no doubt—and I think most of the members of the Committee will agree—that when banks in a community have by some arrangement, some control over that community and commence charging 10 per cent and 12 per cent, then the community might as well quit doing business as far as borrowing money is concerned. Any man who knows the first thing about finance knows that you cannot pay 12 per cent and make a profit on your money, because too many people are after that kind of investment. I think in respect of these isolated cases brought here, some means should be found to prevent them. These means should originate, I think, voluntarily in the Bankers Association; it should not be left to Parliament, but I think there are methods by which these things can be corrected. That method can be found in the operations and principles of the Bank of England and the Federal Reserve Bank in the United States. In the United States, they were faced with the same difficulty; they had high rates of interest; public opinion was stirred up, members of Congress were asked to support some method of correcting it. In the end, they instituted their Federal Reserve Bank System, some of the principles of which are embodied in the memorandum submitted here by myself for a Canadian Federal Reserve Bank. One of the most important features, is what they call “open market features,” and I will read you a memorandum to show how that works, correcting exactly the same conditions with respect to high interest rates as exist in Western Canada.

“Open market operations are provided by section 14 of the Act enabling the Federal Reserve Banks to buy and sell in the open market either at home or abroad, commercial bills of exchange, banker’s acceptances, and certain specified kinds of government obligations. This causes a flow of reserve money from the district of the buyer to that of the seller. Federal Reserve Banks can raise the discount rate to prevent dangerous loan expansion, or to prevent undue outflow of hold from the country. If member banks do not raise the rate, and not requiring funds from the Federal Reserve Banks by way of rediscount, they can continue the policy of loan expansion at low discount rates. To force the banks into line, the Federal Reserve Banks may go into the open market and sell acceptances, commercial bills, municipal warrants and government bonds, and by withdrawing from the market the funds received in payment, may tighten the market and force up the discount rate, bringing it into harmony with the Federal Reserve rate.”

Mr. W. F. MACLEAN: That means that they have practically a way of controlling the rate of interest.

Mr. LADNER: Yes. Mr. Shaw brought that out very well. He says that in order to have a fixed rate of interest, you have to divide Canada into a number of sections. Who will assert the practicability of dividing Canada geographically, and fixing a rate in proportion for ten years?

Mr. SPENCER: It has been done now.

Mr. LADNER: No, It is being worked in a practical way, by the Federal Reserve Bank in the United States. The only remedy is to apply the ordinary fundamentals of economics to this question. If you have a Federal Reserve

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Bank in open market operations, where they are charging 10 per cent and 12 per cent, what happens? Complaint is made by the people to the Government, or members of the Federal Reserve Board, and they immediately devise a method of relief. They have the privilege of bringing money into that district and saying, "Here, you are charging too high a rate; if you do not bring this down, we will bring money here and force the rate down." They will go into a community where the banks are charging 10 per cent, and loan money at 6 per cent and 7 per cent. How long can other people charge 10 per cent and 12 per cent, when a huge organization brings money in at 6 per cent and 7 per cent? In my judgment—and I have finished my remarks,—to fix a rate of interest by legislation is pure child's play in the complexities of economic problems. You cannot do it; it has been tried and you cannot do it, and we are making fools out of ourselves in trying it again. Let us keep on sound economic ground, and consider some way of checking these things by the ordinary law of supply and demand, just as other commodities are checked in different localities. Therefore, I am opposed to the amendment.

Hon. Mr. FIELDING: I suppose we can all agree that the object of these several amendments is to restrict the banks to a 7 per cent rate. That is the substance of them all. They differ in form, but not in substance. Now, is that likely to be a good thing for the borrowers of Canada? More than once in these discussions, I have tried to suggest that when you place restrictions on the operations of the banks, you are really making it harder for the borrower, because if you make conditions difficult, the borrower cannot get his money. I think perhaps there is some actual misapprehension as to just the extent to which excessive rates are charged now. Particular cases may be cited, but they are not the average. I happen to have in my hand a return—it is not up to date, but I presume it represents average conditions. I find in some cases the rates were very high—58 per cent, 40 per cent, and actually one of our big banks got 79 per cent. I suppose that is on some transaction with a man who wanted a very small amount of money for a short time, and they may not handle the thing for less than a dollar, or something like that. That, however, is a very exceptional case, and does not represent the average. I have a statement representing the average; it is not the latest one, but the average rate of interest of the banks of Canada was 6.54 per cent.

Mr. W. F. MACLEAN: Who made that?

Hon. Mr. FIELDING: This is made to the Government by the banks.

Mr. GOOD: For what year?

Hon. Mr. FIELDING: For 1921. I do not happen to have a later one on hand. Applying it to the cases where they charge discount, I find the average discount was 7.02 per cent. So these, on the average, do not seem to be excessive rates, but whether they are excessive or not, I am afraid we have the most conclusive evidence that if you restrict the banks to the 7 per cent maximum, you may perhaps do harm to the banks, but you will certainly do harm to the borrower. I am going to quote one bit of evidence taken before this Committee, that of Mr. Powell, Manager of the Weyburn Security Bank. This is a little bank out west. If there is such a thing in Canada as a rural bank, it is the Weyburn Security Bank. I find he was asked by Hon. Mr. Stevens:—

"Q. I would like to ask three or four questions as to matters which are in the Bill now, or on notice of motion. From your experience in the west, what would be the effect upon your business as a banker, if the rate of interest was fixed by law at say 7 per cent?—A. We would go out of business.

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"Q. Would you like to elaborate that for a moment?—A. It is easy to elaborate. Our loans amount to \$2,400,000—\$2,406,000—, and our profits for the last two years have been under \$50,000, about \$48,000. Take our average interest rate, and it runs about 9 per cent. Take 2 per cent off that, that is, \$50,000 off of it, we would be doing business and taking the risk for the fun of doing it, and we would have to quit.

"Q. In other words, you do not think the business can be run at a fixed rate of 7 per cent?—A. Not in our district."

Now, that is a rural bank, if you have such a thing in Canada; it is a small bank out west. It has been very successful in its own field, and I am sure we were all deeply impressed with the evidence of Mr. Powell. He has been operating this bank for some time, and he declares that if you limit the rate to 7 per cent that bank will go out of business.

Mr. CARMICHAEL: They pay 4 per cent on deposits.

Hon. Mr. FIELDING: Then they are more generous than some of the others; Mr. Powell said that he thought his average rate of interest was about 9 per cent, and the returns here show that the average was 9.06 per cent. In connection with the general principle of trying to regulate the interest, experience has shown that you may easily create more harm than good. I only quote that one point from Mr. Powell's evidence; that is a rural bank, well managed, every one of our western people believes in that little bank out there, and that little bank would absolutely be closed up if you adopted these amendments.

Mr. W. F. MACLEAN: And it would not hurt the big banks at all.

Mr. SALES: Have you the average of the western banks, just the western banks? I am afraid the average of these big banks in the west is not fair.

Hon. Mr. FIELDING: The average of the Union Bank was 7.84. That is a western bank, that is not one of these eastern banks.

Mr. MITCHELL: And it is one complained about in the McGibbon report.

Hon. Mr. FIELDING: It has its headquarters in Winnipeg, and not down east.

Mr. BAXTER: I do not want to take up very much time. If you take all these amendments that are suggested, the same principle is running through them all, and they bear the hall-mark of evident sincerity, in an attempt to grapple with a real problem. We must extend sympathy towards that point of view, but when you put them together and take the very best of them, with such amendments, where do you get when you have to enforce them? To my mind it is almost impossible to attain the object that the movers have in mind. Let me point it out in this way. Instances are given of 10 per cent and 12 per cent being charged. Let us take Mr. Shaw's amendment, which seems to be the most fully developed of the amendments, and where do we get? When the man who now, under extraordinary circumstances, goes to the bank, and the bank manager feels that the risk is much greater than the average, he will not lend the money out without that higher interest. If you impose these regulations, this man will need the money just as much as before. The manager will say, "The Parliament of Canada has passed a law which makes it impossible for this bank to lend you the money." Then, what will follow? Will that man go without the money? I do not think so. I think the bank manager will say, "Across the street is Mr. A. B.; he lends money, and I think you can probably get it from him." Now, Mr. A. B. will not be an incorporated bank, he will not be a loan company, he will simply be a private usurer, and Mr. A. B. will borrow from the bank at 7 per cent. He will not have to pay any more, because he will be a leading citizen, but when he lends to the borrower who has been refused by the bank because of these provisions, he will exact all that the bank would

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have taken, the 10 per cent or 12 per cent, or more. You only drive the man from one set of money lenders more reputable, into the hands of one less reputable.

Now, there is absolutely no escape from that. If I felt that by any cast-iron provisions we could compel a bank receiving deposits all over Canada, as it does, not to employ that money in the general field of banking, not to lend that money outside of Canada, if we could absolutely regulate them so that they would lend money to the man who wanted to borrow it, I would feel a little fearful that we were embarking on too much regulation of the banking business, but if we had all these provisions, still the bank would say to the doubtful borrower, "We will not take your risk; somebody else may take your risk." They will not loan to that man. How far ahead have you got? I do not consider that the provisions in Section 91, even, are of the slightest bit of benefit. I would willingly accept these amendments, if I felt that they would remove the evil.

Mr. W. F. MACLEAN: I would like to say this: in the United States, which is now the centre of the capital of the world, they have a banking system which does deal with this problem. It does not result in the people going to the usurer across the road.

Mr. BAXTER: Yes, it does.

Mr. W. F. MACLEAN: No, it does not. The greatest banking system in the world to-day is in the United States, and they have it in their legislation, and Mr. Ladner brought it forward here to-day.

The CHAIRMAN: You are getting away from the question a little.

Mr. BAXTER: I just want to say this. If anyone tells me that any United States system is so effective as to compel a banker to lend at 7 per cent to a man who would be a risk at 10 or 12 per cent, then I simply decline to swallow such nonsense.

Mr. IRVINE: May I ask Mr. Baxter a question? Did I understand from your remarks that you mean to tell us that since usury is being practised by the banks now in some cases, when they charge 10 per cent or 12 per cent, it seems to be impossible to prevent it. Therefore since you must have usury, and the banks are practising it now, would it not be better to allow the banks to go on being usurers, because you might create some inferior people who would do the same thing. Is that your argument?

Mr. BAXTER: I think my argument stands as it is.

Mr. KELLNER: I would like to make a few remarks on this matter. I wish to submit that this is the first instance, as far as I can remember, in which we have had the Minister advocating the elimination of anything in the Bank Act. It has usually been the case that he has said, "It has been so for years, and we should keep it." This has been in the act for at least ten years, and I am surprised to see that he advocates wiping it out of the Bank Act.

Hon. Mr. FIELDING: No, I did not.

Mr. KELLNER: I so understood him. Another point that I submit is that if we do not limit the amount that the banks can charge, they are practically the only institution that we let function on that basis. We have the Money Lenders Act on the statute books, which limits the amount which the money lenders can collect, and which the member from St. John spoke of.

Mr. LADNER: It is supposed to but don't.

Mr. KELLNER: The Act is there, and it reflects on the legal fraternity of the country if it is not effective. We also have the Pawnbroker's Act. It limits the amount of interest which they can charge, and if it is not effective I

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think again that the reflection rests on our legal friends here. I would like to submit further that if we do not limit them, we are simply putting a large number of the customers of the banks of western Canada out of business. Now, when anyone makes a statement that a farmer, or anyone else, should not borrow money from the banks, I submit they do not understand the class of business that has been carried on. If a farmer borrows \$2,000 or \$3,000 from the bank at 8 per cent, in a few months he finds it raised to 10 per cent, and he has no way of paying the loan back, and no chance of getting lower interest. Then the argument that he should not borrow at high rates is absurd.

Mr. W. F. MACLEAN: If you do not fix the rate of interest, there will be further mergers, and we will have a bank monopoly by big banks in this country, and the one check is to regulate the rate of interest. They practically eliminate that by the National Reserve Bank system in the United States. In other words, the State must do something in the way of regulating banking operations, including the amount of interest, and it is not against the public interest to do that at all.

The CHAIRMAN: Mr. Carmichael, do you not think—I am not asking you to do it, but it does not seem to me that the first part of your amendment is really an amendment at all, unless you wish to provide specifically that a judgment creditor shall obtain 7 per cent interest and I do not think you mean that.

Mr. CARMICHAEL: The wording, Mr. Chairman, is, "That no higher rate of interest shall be charged by the bank."

The CHAIRMAN: I think, Mr. Carmichael, that Mr. Shaw's amendment comprises everything you have, or intended to have in your amendment, and it would be better to allow it to go out.

Mr. CARMICHAEL: Mr. Shaw's, if accepted by the Committee, is acceptable to me.

The CHAIRMAN: If you would allow it to drop, it would be easier to take the vote. I can only ask you your permission to drop it, you know.

Mr. BAXTER: May I suggest that the fair way to put it is, shall the principle underlying the several amendments be adopted, and then it can be worked out afterwards, if the Committee is in favour of it, because it raises an issue as to the general system we are now using, and the details can be worked out later.

Mr. SPENCER: The Minister, in speaking a few moments ago, brought up the statements made by the General Manager of the Weyburn Security Bank, in which he said that they could not carry on business on less than 9 per cent.

The CHAIRMAN: No, I thought he said they could not do it on 7 per cent.

Mr. SPENCER: And their average is 9 per cent. We had Professor Swanson from that same province, and he tells this Committee that it is absolutely impossible for agriculture to carry on under that figure. Now, it is a question whether we are going to go from bad to worse on that high rate of interest, or whether we are going to try and find some other system whereby we can carry on business in western Canada without this very heavy penalty. I might say there is a growing feeling in western Canada against the present system, to such an extent that resolutions have been moved there in convention after convention, that the Government take over the control and operation of the medium of exchange. I do not think that this Committee realizes what a volcano we are sitting on in regard to this subject. In the figures given by Mr. Carmichael, the banks in 1921 were making a very

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decent profit indeed, while the basic industry of this country is not paying at all. There has been some reference made to the Commonwealth Bank of Australia, and it has been inferred that the loans are not made to commercial enterprises. I have a pamphlet here on the Bank of Australia in which, referring to advances, says:

"Advances may be arranged against approved security, interest being charged on the daily balance of the over-draft at the rate of 6 per cent per annum on ordinary business or trading accounts."

It further says:

"Interest is only charged on the actual daily balance of the account, and the over-draft may be reduced at any time, or paid off, in which latter case interest will immediately cease."

Hon. Mr. Stevens:

That is limited to 20 per cent of their ordinary loans.

Mr. SPENCER: That is their ordinary business. One point in that is, that it is down as low as 6 per cent, and the other is that the interest is put on from day to day, and not charged, as in this country, on the whole note, whether the whole of the money is used or not. I might say that the Australian system is the same as the British system in that respect. I would just like to quote a few words from Professor McGibbon's report. He did not give as nearly so drastic a report as he would have given if the people had felt free to give evidence, because the evidence was given in public, and hundreds and hundreds of people refused to give evidence, because they felt they were putting the financial rope round their own necks if they said anything against the banks. There are a few of us in this Committee who are not afraid to speak our minds in this connection. Professor McGibbon makes this statement on page 17 of his report:

"I find the current rates of interest on farmers' loans throughout the province to be 8, 9, and 10, per cent, according to the condition of the district and the degree of competition present. I am convinced that there are very few farmers, if any, who are being supplied with loans at as low as 7 per cent. The maximum legal rate laid down in the Bank Act. As it is at present drawn, Section 91 is of absolutely no value in determining the maximum rate charged by the chartered banks of Canada in the Province of Alberta. The section as it stands not only fails to protect the borrower from higher rates, but leads, I believe, to an insistence upon discounting and compounding which increases the irritation of the client. The average farmer desires to borrow a round sum, and to pay interest thereon. The bank commonly offers to discount his note at higher than the legal rate, deducts the discount, and leaves him with less than the round sum asked for. If, however, he absolutely requires the round sum, sometimes he obtains it, but usually interest is added for the sum that is not deducted. That is, interest is charged upon interest. I shall discuss this practice later. Here, I desire to point out that it becomes a peculiar source of annoyance when discount, to which the farmer objects in this, becomes the mechanism whereby the bank insures that its non-legal rate of interest is paid in advance, and thus made safe against legal attack."

Later on in the report, he said:

"In conclusion, I should like to point out that I consider ten years too long a period to endeavour to set an effective maximum rate of interest."

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The CHAIRMAN: Gentlemen, I propose putting Mr. Shaw's amendment first; I do not see any other way. I hope I have Mr. Carmichael's consent.

Mr. IRVINE: I move that the Committee adjourn.

Mr. GOOD: I want to be heard on this question; if the Committee is going to prevent it, I want to know that too.

The Committee adjourned until 4 o'clock P.M.

AFTERNOON SITTING

June 6, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: We will proceed with the consideration of Section 91. Mr. Spencer, I think you were on your feet when the Committee adjourned.

Mr. SPENCER: I am finished for the time being.

Mr. GOOD: We have a quorum?

The CHAIRMAN: There is a quorum here. I think it is now the turn of Mr. Irvine or Mr. Good.

Mr. GOOD: Mr. Chairman, I hope that I will not take up a great deal of the time of the Committee, but I regard this as a very important question. It is more far reaching and vital than most of us imagine. Generally speaking. I think Mr. Ladner's position is unassailable, that you should not fix prices; but I would like to suggest to him that there may be a question as to whether money is a commodity. I am not going to discuss that, but we had Doctor Shortt deny that very distinctly, and we have had it questioned by many. Therefore, I would not base my acquiescence on what he says in that respect on any agreement that money is a commodity.

I think we are up against a rather unique situation, not unique perhaps in respect to money alone, because it applies to other commodities; but we are up against a situation where competition has practically disappeared. I think we have to recognize that very frankly. I do not think there is any doubt that competition has disappeared, that it has become ineffective; and the question is, what are we going to do? When that state of affairs exists, the state has to step in and do something in the way of regulating or taking over what has become a monopoly. I think that is a perfectly sound principle. Now, it is a question in my mind as to how this regulation is to be effected, in what way, and through what instruments or institutions. In that connection I wish to submit to the Committee certain considerations that have not yet been submitted.

When we were considering some time ago the question of inflation and deflation, I think it was well established by the economists who were here, and admitted by at least one of the bankers, that the general price level whose stability we are greatly interested in, and upon which so much of our prosperity depends, is dependent on the regulation of the volume of money. As was pointed out on that occasion, money consists nowadays mainly of the instruments of credit that are issued by the banks. Now, under our system, we have allowed to institutions which are practically a private monopoly, virtually complete control over the volume of money through the issue of credit instruments or the expansion or contraction of that part of our money. That means, that either—perhaps I should not say it—either through design or through ignorance, great injustice may be done to individuals and to classes of people in this country, and great damage may be done to the country by the expansion and contraction, the unregulated, unwise, ill-considered expansion and contraction of

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the volume of money. I venture to submit to the Committee that the control over the interest rate has a most definite connection, the closest possible connection with the regulation of the volume of money; and I think we must sooner or later—and the sooner the better—take into consideration how we are going to regulate the volume of money through the regulation of the interest rate.

It must be very obvious to everybody that if the interest rates are low, there is an inducement given to increase loans. The borrower finds it easier to borrow. If, on the other hand, the interest rate is high, there is a check on the expansion of credit or money. Now, Mr. Chairman, I do not know just what we are prepared to do at the present time. But, in my judgment, this is a question of the first magnitude in the public policy of this country. It is a question, perhaps, for some international arrangement and joint action; and that is one of the reasons why I suggested on a previous occasion that we should let this matter stand over until we had time to go into it very thoroughly, and devise some ways and means of regulating the volume of money by the interest rate.

The amendment proposed by Mr. Shaw fixes the rate arbitrarily to some extent, and in the absence of anything better, I would be inclined to support it as a makeshift. I do not think it is radical; I do not think it is permanent. But we have no competition that would regulate the rate, and we have no control by people who understand the real meaning and operation of the financial machinery. We have no control in the interests of the country. As I say, I would be inclined to support the amendment as something that might help out in the immediate future. I am not quite sure of that, but I do think that we must look for a permanent solution of this problem through the creation of a central bank. Something like exists in the United States, something like what they have in England through the Bank of England. This central bank should be operated by men who know what they are doing, and not by men who do not know, as I believe most bankers do not know at the present time; and the State, the people themselves, through their representatives have to see that the control over such a central bank is in the hands of people who understand. In that way, and in that way only, as far as I can see, can the interests of the rank and file of the people of this country be safe-guarded. I do hope that as soon as possible this Parliament of Canada may take seriously into consideration the question of some kind of central bank, some method of controlling interest rates, and possibly other things. I think Mr. Ladner, in his representations in that direction has put his finger on one of the vital things in our whole financial system.

Now, Mr. Chairman, there are only one or two other points of detail that I would like to mention to the Committee. Mr. Carmichael, in introducing his amendment, spoke about the spread of rates in Australia, and it was represented that the Australian Commonwealth Bank was not doing very much business like our Canadian banks, and therefore could operate on a smaller spread. Just in that connection,—I have not the details with me, but I can speak partly from memory—I would like to direct the attention of this Committee to what has been done in Germany through their Peoples Banks, through their small local banks, which are federated in districts, and which are linked up with at least two kinds of central banks. The spread over there—I am speaking from memory now, I have the information elsewhere—the spread is not much over one per cent. or possibly two per cent. as between the local bank and the central bank. The money is loaned to individuals through the local co-operative banking institutions. The Australian spread, as has been stated, is about 3 per cent. Now, I do not see any reason in the world why, if we had a well-designed institution, operating in a business-like way, I do not see any reason

in the world why this spread cannot be cut down to at least half what it is at the present time, as between the interest received on deposits, and the rates on loans. We have had submitted to this Committee, time and again, the situation in western Canada, where there are small towns with a lot of banks, with tremendous overhead, and the banking business cannot be carried on under these conditions without some waste, and that is one of the inevitable consequences, apparently, of our present system. We have a condition that leads only to waste, and in order to make the business pay, and make dividends, the rate has to be raised until it is practically destructive and suicidal. That is what our system has led to; we have had no advantage of real competition as regards rates, but we have had all the disadvantages of the duplication of machinery, and it is something we have to face, and we might as well face it now as later; we might as well tackle it and see if we cannot devise some way of remedying it. Mr. Fielding said that we should keep in mind the borrower, and that if the banks were restricted in any way it would go ill with the borrower. Perhaps that is a very wise point of view, if we should assume that the borrower, the Canadian farmer, shall be permanently unable to avail himself of any other financial system than the one already in existence. If we were to say that, if we adhere for all time to come to the present system, then I would think we had better be very careful about making any changes; but if we, on the other hand, are going to look for a remedy in some other institution, in some system of rural credits, some system of long term loans, some Federal Reserve system, the whole thing takes on a different view. Possibly, in that respect, it might be a good thing that some effective check be put upon the interest rates, in accordance with Mr. Shaw's resolution. As I said before, I do not regard it as a permanent solution of the difficulty, but it might help out at the present time, and if the banks were cut down to a profit of two or three per cent, they would even then be in a better position than many of the other industries have been in recent years. I really do not think that we should worry over that.

However, if the western farmers, who perhaps are chiefly concerned in this matter of rates cannot get credit now under what we may call fair conditions, they must provide for themselves. The country must provide machinery which will give them credit on easier terms. I do not think there is any doubt in the world at all that the machinery can be provided in Canada as it has been in Australia, as it has been in New Zealand, as it has been in the United States, to supply our people with these facilities at very much lower interest rates, than have been current in Canada, or that we can have under present conditions. Therefore, it might be that this—if you like—illogical restriction would have the effect of forcing some more radical dealing with the whole problem than would be the case if we let matters go on without any attempt to deal with them in a sensible way. I was rather impressed with what Mr. Baxter said, in the way in which this thing could be evaded. I do not know whether we would have to take into consideration whether or not there is any effective way of dealing with these usurers who might be, so to speak, the back-door of the banks; that is a matter I would like to hear Mr. Shaw deal with, as I am not personally prepared to comment on that. Now, all I have to say in conclusion, Mr. Chairman, is that this whole discussion of the tremendous problems, the tremendously vital problems involved in it is, to me, another bit of conclusive evidence that we need to take up this whole problem in a comprehensive, thorough-going way, and in order to do that we need ample time to look into these various questions that have just been opened up to us, and which have not as yet been thoroughly investigated. The questions brought up by Mr. Ladner, the question of the Australian system,

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the question of the United States system, the question of rural credits in Canada and elsewhere, all these and other matters have to be dealt with.

Hon. Mr. STEVENS: Mr. Chairman, I think it would be desirable to focus attention on the point immediately before us. First, let me say this, that if the proposal before us was merely some way of lowering the cost of credit money to the borrowing public, certainly we would be unanimous about it, but that is really not the question before the Committee. The question before the Committee is, can such an object be attained, at the same time serving the best interests of the public, by fixing a statutory maximum rate of interest for the banks. That is the question we must consider, that is the question we must decide on in our own minds in voting on this matter.

I gave this question a good deal of study, in connection with a subject mentioned this morning by Mr. Ladner; that is, the high rates of interest charged by money lenders. I introduced a bill in the House some years ago fixing a maximum rate. I studied the question with a great deal of care, and wholly from the angle of reducing the interest rates. I was then forced to the conclusion that it was an impracticable measure, that is, to bring interest down to a point which would constitute a real reform. Then this winter, prior to the opening of the House, this particular clause in the bill commanded my attention again, and I studied it as earnestly as I could. Now, it is not to me a question of the banks vs. the borrower; it is not a matter of taking the one side or the other, but it is a question of whether or not this is a practicable and an advisable step to take. Now I wish to place the subject before the Committee from three different angles, all of which have been mentioned more or less to-day, but a little repetition, perhaps will not do any harm. There is the historic angle, there is the economic, and then there is the comparative, and if the Committee will bear with me for a few minutes I will try and deal with it from these three points of view.

The reason I refer to the historic, is this. In regard to any action by associated or organized society, whether it is in connection with financial affairs, or political affairs, or sociological matters—any action that has been tried over a period of years, and we have in our possession the results,—I think we are wise to see what the effect has been in the past, what the general attitude has been, and, not necessarily form our conclusions by it, but at least keep these matters before us when considering the same problem again. Now, this is an old question. It is not new, it is a very old question. It is old in its present form, in the form submitted in these amendments it is over 300 years of age. When banking became common, about the time of Elizabeth, even ordinary banking was looked upon with a great deal of suspicion by the people, and the charging of interest was almost looked upon as a moral offense. I happened to be reading—and it was only by pure accident—the other day, one of those notable essays of Francis Bacon on Usury, and it is well worth reading. Indeed, you can take from that, arguments both ways. I can bring it forward here, and argue in support of Mr. Shaw's amendment, but there was one thing in it which struck me, which I think we ought to keep in mind, as it was the enunciation of a principle. In the conclusion of that essay, Bacon pointed out this,—and it was the result of careful philosophical thought, and not by a prejudiced mind—he said there was undoubtedly necessity for recognizing two classes of interest; that you could fix one class—that is statutory, and we have that in the form of our judgment interests, which are 5 per cent—he suggested the same figure, a mere coincidence—and then he said there was another class of interest that it was inadvisable to fix, and that was what he termed "mercantile or commercial interest", and he pointed out this, that if you fixed the rate of that class of interest, you would stifle business; in other words, he said that

merchants frequently required money to carry out a new transaction, which they recognized as a possible profitable transaction, and were willing to pay that rate of interest which would warrant them in going into the venture, whatever it might be. Now, of course times have changed, it is true, but that principle remains, that people want money at given times for short loans, and are prepared to give a certain return for it. Now, I want to leave this with the Committee, there are the two classes of interest; one is fixed by our statute to-day, and the other one, I think, should not be fixed for these and other reasons which I will reveal later.

Let me take the next reference.

Mr. SHAW: Might I ask a question on that. This I take it, is an argument of Lord Bacon which would justify the complete abolition or repeal, rather, of the Interest Act excepting so far as it refers to judgment rates of 5 per cent?

Hon. Mr. STEVENS: You mean the Pawnbrokers Act?

Mr. SHAW: No, the present Interest Act.

Hon. Mr. STEVENS: There is a foot note in connection with the editing of this essay, to this effect, as I recollect it, that economic conditions have vastly changed since then, and you cannot apply in detail the argument that was applicable then, but this principle seems to me to be one of those general principles that is applicable, and I really brought it forward to show that even as far back as his day this was a live question. Let us go to more practical matters. From Henry VIII down to 1854, there were passed some 40 laws in Great Britain, restricting interest. These were all repealed in 1854 as having proved to be ineffective, and in some, if not in many of the cases, injurious, so that after all those years of experience, the British Government abandoned the principle of restricting or fixing rates of interest. It is true, that in connection with pawnbroking and money lending, certain laws still remain. Let me refer to those. In pawnbroking, dealing in small loans, the rate of interest allowed by law, is very high, so that it really does not enter this argument as a factor. In connection with money lenders, however, the British law does not restrict the interest at all, but does permit a borrower who may feel injured, entering a suit against the lender, and the courts may fix the rate. It might be interesting to note the rates that were fixed by the courts in a large number of cases. I have the list here. They use these words, "Where the rate of interest was considered to be harsh or unconscionable;" these are the words used by the British courts. I have the cases and the dates, and they fixed such rates as these: 30, 40, 10, 25, 60, 50, 30 per cent and so on. These rates were allowed by the courts under the Money Lenders Act in force in England. Now, the reason is this: Unquestionably the courts take into consideration the contract between the two people, and the whole nature of that contract, restricting the rate of interest only by their judgment as to whether or not it was unduly harsh, unreasonable or, as they say, unconscionable. That is really the only restriction in vogue in Great Britain. Now, I shall leave that, and turn to the economic side of this problem. I thought last night that some of my friends here who might very properly question my own authority, would not question the authority of an economist of the standing of Adam Smith. I could bring many others; there is for instance an extract that I have here from the International Encyclopedia which is interesting, and I will just read one or two paragraphs from it, and then I will refer to Adam Smith. I do this for the purpose of bringing before the Committee certain principles. I am not now dealing with the practical side to which I shall refer in a moment, but with principles, and I think we ought to keep some of these before us. In this article on Interest, the International Encyclopedia has this to say:—

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"It is the belief of the most enlightened political economists of the present day that much of the legislation on this subject, intended as it has been to protect the poor from the assumed rapacity of the rich, has nevertheless been in reality a mistaken and injurious kindness—an attempt to regulate by law that which might better be left to the discretion of the parties directly concerned."

Then, another slight reference:—

"The money lender may indeed abuse his power to the injury of the borrower, as the borrower may sometimes deceive the lender, but this is only an abuse of a thing not bad in itself."

Then they refer to the growth of this subject, and finally say:—

"Some of the American states have, within a few years, followed the example of England, and the tendency of public sentiment in the United States is believed to be in the same direction."

Now, as I say, I looked up Adam Smith. It may be a little dry to cite this in Committee, but I think perhaps it might be worth while. Adam Smith, in discussing this important question of interest, has this to say, and it is heavily underlined in the book. This, of course, is his famous book, the *Wealth of Nations*.

"Where much can be made by money, much will be given for the use of it."

Now, it does not make any difference what we may think from a sentimental point of view of this; what he is doing here is enunciating a principle in economics. There it is, whether you like it or not. "Where much can be made by money, much will be given for the use of it." Then he goes on to refer to the reign of Henry VIII and Elizabeth, when 10 per cent was legal interest, and then he shows how it was reduced, and how these regulations followed the market value of interest. I want the Committee to get that, that as these various laws were made during this long period to which I have referred, they fluctuated, or the rates of interest fixed by these laws changed as the general market rate of interest changed, and then finally were abolished and eliminated because of the ineffectiveness of them. Then, he goes on to discuss the matter. He says, "A defect in the law may sometimes raise the rate of interest. As when the law does not enforce the performance of contract, the lender will require interest proportional to the risks of losing the principal." Here is a principle laid down by this economist, which I think we must consider, and I want to submit to the Committee this; it does not make very much difference what we do in violation of these principles, the effect of them will be just the same. We may try to hedge around the recognized principles of political economy, but the effect will be just the same. He goes on—

"... the lender will require interest proportional to the risk of losing the principal; or when the law prohibits interest, its rate must be suitable to the danger of evading the law."

That is the very point referred to by my friend Mr. Baxter this morning. We may say it is an iniquitous argument, to say that if we pass a law it is going to be evaded. It may not appear logical, but experience teaches this, that where you restrict beyond a given point a certain thing that the public demand and must have the use of, then there will be evasion of the law. We have an exhibition of that in connection with prohibition; the same thing applies to that, and, to a certain extent, to this problem. I shall not read further, but I have cited Adam Smith for the purpose of emphasizing these principles.

Mr. BIRD: Does Mr. Stevens regard Smith as a sound economist?

Hon. Mr. STEVENS: Certainly, I do. My friend Mr. Bird is going to ask me why I do not follow him in his principles of free trade. I do not intend to discuss it here, but I want to say, that I value the contribution Adam Smith has made to the science of political economy, as much as I value the contributions of John Stuart Mill, List, and others, but it does not follow that one must swallow everything. My friends may do so, but I prefer to leave some things for my own determination. I am merely saying, that an economist of the standing of Adam Smith recognized these principles. That is all.

Let us turn to the Federal Reserve Banks referred to by Mr. Ladner this morning. It was argued, and I think several had mentioned it, that by the introduction—and I am sorry Mr. Maclean is not here, because I think this would be very instructive to him—it was argued this morning, or suggested, that the introduction by the United States of the Federal Reserve Banks would cure this situation, that there would be lower rates of interest. I have the Federal Reserve Bank statement for May, 1923, and after all, Mr. Chairman, the stubborn facts are the things we must consider in dealing with this problem. I will read the rate of interest for "prime commercial paper." This is not risky stuff, it is prime commercial American securities, for the month ending April 15, 1923. New York, 6½ per cent; Buffalo, 7 per cent; Cleveland, 7 per cent; Baltimore, 6 per cent; Birmingham, 8 per cent; Jacksonville, 8 per cent; Nashville, 8 per cent; Little Rock, 7 per cent; Kansas City, 7 per cent; Omaha, 7 per cent; Oklahoma City, 10 per cent; Dallas, Texas, 10 per cent; Portland, 8 per cent, and Los Angeles, 8 per cent. Here are a dozen or more of the leading cities of the United States where, under present conditions, 7 per cent, 8 per cent, and 10 per cent is being obtained for prime commercial paper. That is in the United States, where your Federal Reserve is operating.

Mr. LADNER: Is that the Federal Reserve Bank?

Hon. Mr. STEVENS: This is the report of the Federal Reserve Bank.

Mr. LADNER: These are not the rates of the Federal Reserve Bank?

Hon. Mr. STEVENS: No, that really illustrates the very point brought out by Mr. Fisher, where he said the Federal Reserve Bank system was, in his opinion, wrong. He pointed out that in England, the Bank of England charged a higher rate to discount banks than the discount banks were receiving, on the principle of discouraging rediscounting, whereas in the United States the Federal Reserve Bank charged a rate of interest about one per cent below the current rates and the witness, I remember, pointed out that there was a danger under that system of unreasonably and unduly inflating the issue of loans and credits. This is the normal business of the country; I do wish the Committee would get this point, that these are not abnormal loans, these are loans on prime commercial paper, and these are the rates reported by the Federal Reserve Banks.

Mr. LADNER: May I ask a question on that. I did not say the Federal Reserve Bank was going to alter the general rate of interest throughout the country; I said it was an instrument that could be used to stop such rates as 10 and 12 per cent, by open market operations, so your contention is not an answer to my argument.

Hon. Mr. STEVENS: I hope Mr. Ladner does not think I would be so rude, coming from his own province, as to enter into a controversy with him. What I am suggesting is, that here we have the report of the Federal Reserve Bank. It was argued that by the existence of a Federal Reserve Bank, there was a lower rate of interest in American centres. It was further argued that where a higher rate of interest was charged, the Federal Reserve Bank would step in and say,

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"If you do not lower your rate of interest, we will loan direct to the public." Now, I am giving to the Committee the exact quotations, by the Federal Reserve Bank itself; here they are, and you cannot escape them. They are mighty stubborn, and mighty enlightening. When we talk in the west of the rate being 9 per cent, here we have prime commercial paper, and I am quite certain that if we were to find the extreme in the small western banks in the United States, we would probably find it a great deal higher than in Canada. That is instructive to the Committee, as a matter of comparison.

Let me take a step further. The question was raised—and I know Mr. Irvine is preparing to deal with it, and I would like to ask him to consider what I am about to say—the question was raised this morning about money being a commodity. Perhaps, technically speaking, it is not a commodity, but no one will question this, that negotiable paper is a commodity; that is, mortgages, agreements of sale, notes, bills of exchange, warehouse receipts and so on, these are commodities. These are the things sold on the money market, these are the instruments which brokerage firms in the large cities buy and sell, which banks buy and sell, and what I want to point out, Mr. Chairman, is this: If we fix the rate of interest in the Bank Act, we are certainly going to hamper and interfere with the free interchange of this commodity of negotiable paper in the financial centres of the world. I am going to come in a moment to the agriculturist's side of this question. I am speaking now of the question irrespective of class, or of the nature of the business. We have to look upon business, commercial business, as something that it is necessary for any country to facilitate and carry on. So I repeat that fixing the rate of interest must inevitably reflect upon the facility upon which these negotiable instruments can be dealt with. I do not think that anybody will question that such instruments as I have mentioned are in every sense of the word a commodity. If you are going to fix the rates of interest on this particular commodity, I agree with Mr. Ladner that you may just as well fix the price of any other commodity.

The question of freight rates was mentioned. Why, it was asked, fix railway rates if you cannot fix interest rates. There is a big difference. If I have a note in hand for one thousand dollars, I can sell that note on its face value. For instance, we will take the Massey-Harris Company or any other of those well-known commercial concerns which frequently do issue such instruments. That note comes into my possession, and is payable, we will say, three months hence. That is an article that I can offer for sale. Take the Armour-Swift concerns; they generally finance in this way. They will issue notes to the amount of one million dollars or two million dollars to finance the heavy movement of stock or something of the kind. These notes are sold in New York to brokers. They may hold them for sale, and they sell them if they see an opportunity of better investment, to some bankers. That is a vastly different thing from fixing freight rates.

Mr. COOTE: I would like to ask whether the present amendment would interfere with the banks buying those bonds?

Hon. Mr. STEVENS: Unquestionably. The amendment makes it illegal for a bank to receive a higher rate of discount or of interest than 7 per cent.

Mr. COOTE: The one would be an outright purchase; the other a loan.

Hon. Mr. STEVENS: I am a customer of a bank, and I walk into that bank and lay my note down, and they buy it. When they take a discount, certainly the bank buys my note. They discount it, but they buy that promise to pay. I walk into the bank and they buy it.

Mr. COOTE: They discount it.

Hon. Mr. STEVENS: Unquestionably they buy it. This is what the Committee must get clearly into its mind. The instrument is a legal instrument.

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Suppose that I want to take a draft on London; you find the bank quotations daily of London and New York showing that they are buying at so much, or selling at so much. I buy it just the same as I would buy a suit of clothes. Now, if we fix the interest rate, as is suggested by the amendment, it means that the bank cannot buy my paper or any of this negotiable paper at a rate of discount or of interest higher than 7 per cent, and I submit that that would be a very dangerous and damaging thing.

MR. GARLAND: If you were to remove the words regarding discount would not your objection be removed?

HON. MR. STEVENS: This is the law as it stands.

MR. GARLAND: Leave the amendment to deal only with interest.

HON. MR. STEVENS: The law as it stands makes a charge above 7 per cent illegal, and what the privy council has decided is, that under this clause the banks may discount for a higher rate, but they cannot charge interest at a higher rate than 7 per cent.

MR. COOTE: They do.

HON. MR. STEVENS: They do as a matter of contract between two free individuals.

MR. SPENCER: The customer is not free. He has to deal with a monopoly, and if he does not deal with that monopoly he cannot deal anywhere..

HON. MR. STEVENS: You are entitled to that view. I will not endorse it.

MR. GARLAND: I think the intention of Mr. Shaw's amendment is to prevent the banks or anybody from loaning money at a rate higher than 7 per cent.

HON. MR. STEVENS: Either by discounting or by interest charges.

MR. GARLAND: Disregard the discount end of it.

HON. MR. STEVENS: Mr. Shaw is not here, but if he would agree to disregard the discount, his amendment would be wholly ineffective.

MR. SPENCER: Is not the main difference between this amendment and the section in the statute this, that here we have a penalty, while in the section we have nothing.

HON. MR. STEVENS: You are entitled to that view, but that is not what I conceive to be the main point. The whole intent of Mr. Shaw's amendment is to make discounting of negotiable paper at a rate greater than 7 per cent illegal, and it is legal to-day.

MR. GARLAND: I interpret it the other way, though I may be mistaken. I really thought that the discount end might be eliminated from Mr. Shaw's amendment, leaving the regulation governing the rate of interest charge. What we are after is to prevent the banks from charging an exorbitant rate of interest.

THE CHAIRMAN: I think Mr. Shaw desires the rate of discount fixed as well as the other.

HON. MR. STEVENS: I think I am right. Here is another point that I desire to make: I find in the return of the Federal Reserve Bank that even the Bank of England in its discount of six months' paper charged in recent years $7\frac{1}{2}$ per cent. The point I wish to base upon that is that normally in handling such paper as I refer to here the rate would probably be around 4 or $4\frac{1}{2}$ per cent, prime London commercial paper; but owing to the general world conditions, the Bank of England rate rose and rose until it became $7\frac{5}{8}$ per cent. Now, London being the financial centre of the world, that was reflected all over the world with higher rates in the less concentrated districts, necessarily so, because the amount of money issued in London is large, while it would be comparatively small in

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the less concentrated districts, so that the rate would correspondingly increase. Keeping in view the world conditions, if you had in Canada a fixed rate of 7 per cent under conditions which caused the Bank of England to charge $7\frac{5}{16}$ per cent, we could not do business at all. I not only hazard that opinion, I think I would be safe in dogmatically asserting it. Let me repeat the point, for it is an important one. If the world condition were such that the Bank of England, the pivotal financial point of the world, found it necessary to raise its rate to $7\frac{5}{16}$ per cent, the corresponding rate in outlying countries like Canada, or in districts such as Montreal and Toronto, would be much higher; and if our rate was fixed in the statute, our banks could not function as banks under such international conditions. I do not think there is any question about that.

Mr. SPENCER: How is it that they are functioning now when we have a 7 per cent limit?

Hon. Mr. STEVENS: Frankly, the 7 per cent fixation now is made ineffective by the very fact I mentioned a moment ago, that the terms discount and interest are interchangeable. That is, if you charge interest in advance it is discount, but if you add interest afterwards, it is an interest charge. The practice of the banks, generally speaking, is to discount all paper, and the privy council has decided under this clause that they are permitted legally so to do. I think—and any lawyer here will agree with me—that under that clause it is not legal for a bank to add 8 or 9 per cent interest. I know they have done it; I have put in notes on which interest has been added at 8 per cent, but that was simply by mutual consent. The Privy Council has decided that where the interest is collected in advance by agreement it was no violation of the law.

Mr. KELLNER: The banks claim that they do not discount as a practice. They say that in some branches here and there it is done, but they claim that they do not do it as a practice.

Hon. Mr. STEVENS: I do not remember any such statement being made. As I understand it, they do discount as a matter of practice.

Mr. KELLNER: It is in Professor McGibbon's report.

Hon. Mr. STEVENS: I did not so read it.

Mr. SPENCER: I may say that I have never had a note discounted; I know many men who have stood up for their rights and have never had their notes discounted.

Hon. Mr. STEVENS: You are very fortunate.

Mr. SPENCER: You said it was the practice?

Hon. Mr. STEVENS: Let us get away from any narrow division. If the banks strictly observe the letter of the law, they cannot add more in the form of interest than 7 per cent, but they may exact a higher rate than 7 per cent if they discount. That is the law as it stands to-day, I think.

Reference has been made to the Commonwealth Bank of Australia, and I wish to refer to that institution, not in a controversial spirit, but rather to place the facts before the Committee. I think the statement was made by Mr. Carmichael this morning, no doubt inadvertently, that the Commonwealth Bank of Australia had no capital. Now, the Commonwealth Bank of Australia started with a grant of £10,000 from the Government. Then it was given a maximum capital of £2,000,000, or approximately \$10,000,000. That was increased until to-day it has an authorized capital of £10,000,000, not all issued. I have their statement before me, and in this statement they show as at a year ago an issue of somewhere in the neighbourhood of £2,000,000 or £3,000,000 capital. That is, they sold debentures; it is the same thing and in their literature is called capital. I have the exact wording here:—

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"At the same time provision was made for the bank to issue capital stock up to £10,000,000 instead of the previously authorized limit of £1,000,000, for, though the bank has up to the present conducted its business without any subscribed capital, it was apparent, that in the event of absorbing other institutions, the necessity for capital would probably arise."

Mr. CARMICHAEL: I knew that there was provision for raising the capital, but they did not avail themselves of the privilege. They used the money in the Post Office Savings Department.

Hon. Mr. STEVENS: They have a debenture issue of £2,000,000 at least. I wish Mr. Carmichael would take my word for it, I looked it up a moment ago, though I do not have it just at hand at present.

Mr. CARMICHAEL: It does not change the point I was making anyway.

Hon. Mr. STEVENS: They sold debentures to the extent of £2,000,000 or something like \$10,000,000. That capital is being used in the bank, plus the deposits. In addition to that, it had immediately transferred to it the Government deposits of the country. But here is the point that I wish to make with regard to the Commonwealth Bank of Australia: First, as regards its loans, only 20 per cent of the total was loaned to the public, and practically all of that was loaned not to the small borrower but to the prime commercial and approved accounts of the large cities. If the Committee will just realize that, it will offset perhaps the wrong impression that has been given of the value of so-called State Banks. Only 20 per cent of the amount loaned was loaned at a commercial rate, and nearly all loaned on prime commercial paper. The capital is given here in the bank's last statement dated June 30, 1922, as £2,000,829, and the redemption fund is a little over £2,000,000, making a total of £4,000,000 of debentures issued and sold.

So much for that, but here is another point that I wish to make: this morning it was shown here, and I only give this for the sake of comparison because comparative figures are, I think, sometimes instructive—it was pointed out here this morning that the Canadian banks earned last year on capital and reserve combined, the sum of 6 per cent I think.

Mr. MARLER: 6-31.

Hon. Mr. STEVENS: 6-31 per cent. I hope the Committee will bear with me while I impress upon them this point: It was argued from that that we could probably lower the rate of interest throughout the country, and that no injustice would be done to the banks. Now, sometimes by comparison, we can get a fair idea of the quota of a given charge. A question that we are naturally concerned in is, is such a general charge equitable or not? Here are the comparative figures of the Commonwealth Bank of Australia. The Commonwealth Bank of Australia earned last year on capital and redemption fund and contingent liabilities—I do not think the contingent liabilities were included in the figures in connection with the Canadian banks—but this Commonwealth Bank of Australia earned $9\frac{1}{2}$ per cent on capital and redemption reserve, plus contingent reserve, and the contingent reserve was something over \$2,000,000. Now, I am not reflecting on the Commonwealth Bank; I am merely taking the comparative figures.

Mr. CARMICHAEL: That is really a strong argument in favour of reducing the rate of interest, because the spread in Australia is only 3 per cent.

Hon. Mr. STEVENS: I am going to refer to that. I was just going to add to these observations that I have made that I think we committed an error in seeking to tie up an interest charge on ordinary loans with an earning charge,

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and I will tell you why. Your earnings not only constitute your interest charges, but they involve all those innumerable little services rendered by financial institutions, by banks and loan companies, little charges for collection, charges here and there which, after all, are a very important addition to their earnings. It includes all of those. Then when you take the mass of earnings, less your expenditures, you apply that to your capital, and that has no relation to the 7 or 8 or 9 per cent interest charge, none at all. The only relation which the interest charge has to the proportion of your earnings on your capital is to lower it or raise it. If your interest charge is arbitrarily restricted, for instance to 7 per cent—I have not figured this out, but I am certain of it—if you restrict your average interest charges to an arbitrary figure say of 7 per cent, and that is what we are asked to do, to arbitrarily fixing a maximum of 7 per cent, we lower the general charges to that point. I do not suppose it would affect the Bank of Montreal, but the smaller banks operating throughout the country would be completely crippled, because where you have a small bank competing with a large bank, if it is competing for prime commercial business, it must loan on this prime commercial paper large sums of money at say 6 per cent or 5½ per cent. Now, if such a bank cannot earn on its small business, which costs a great deal more to handle, a higher rate than 7 per cent, it will be precluded from doing business at all, because the big bank, with its tremendous volume of business, such as the Bank of Montreal with its volume of New York business, could wholly subdue, shall I say, the small bank. I have just one other thing to say, and it is this—

THE CHAIRMAN: Do you know whether the Commonwealth Bank of Australia functions as broker in the sale of the Government securities, and whether they get the usual commission for such work?

MR. STEVENS: Undoubtedly. Here is the list of securities marketed by them, if any one is interested in them. As a matter of fact, all the Government business, without any effort on their part, was turned over to the Commonwealth Bank, including, as I say, the marketing of War Loan issues. I have here ten issues of Federal loans in Australia all marketed through the Commonwealth Bank, and upon them it made a commission.

MR. SPENCER: You cannot tell us what the commission is?

HON. MR. STEVENS: I cannot off-hand, but I have the literature here and it is very clear.

MR. SPENCER: I wanted to compare it with the commission paid by the Government of Canada to the Bank of Montreal.

HON. MR. STEVENS: I do not think it would be wise to go into that point. It would be very interesting to know, no doubt, but I think it could be easily ascertained if desired. The point is, that those earnings which I have mentioned, which any bank is entitled, and for which it renders services are given by the Commonwealth Bank without any competition.

This is my last word, and it is really the most important point that I have to submit to the Committee. Mr. Carmichael and one or two others have emphasized the agriculturist's point of view. I submitted a resolution which was ruled out of order, and which contained my views a few weeks ago. Perhaps I am trespassing a little on the rules, and digressing slightly from the matter particularly under discussion by the Committee, but perhaps the Committee will pardon me for a moment. Personally, I believe, and I think that perhaps it is the opinion of the majority of this Committee that a condition has been exposed—I use that word advisedly—before this Committee calling for redress. Just exactly what are the factors that brought about such conditions I think it would be

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unprofitable to discuss. The fact remains that in the Prairie Provinces more than anywhere else, agriculturists find themselves loaded with debt calling for more or less long term liquidation. Now, that is not banking business; that is clearly not banking business, and I think that when we are considering Bill 83 we ought to get that fact clearly in our minds. It is not banking business; it is term loan business. It is a class of business that ought to be cared for on an amortization plan of loans, and I am prepared to support any reasonable method of finding cheap money for such term loans. We have to consider and very carefully work out a solution. The field is there, the need is there, and I think the effort should be made to find the solution. But I do wish the Committee to appreciate the fact, and I think I can put it in a reasonable way, that because there is that need, because there is that arid field, if you like, it does not follow that the normal business of the country coming properly within banking should be penalized or interfered with. Now, do not misunderstand me. I do not want my honourable friends from the prairies to think that I am selfishly disregarding the agricultural interest. What I want to impress upon them is that I feel that the field is there, and the need is there, and an effort should be made to meet it, but that it does not come within the province of the Banking Act, or within normal banking business, and I think we are making a serious mistake in seeking to force it within these. Because of the experience of the last 200 or 300 years, because of the utterances of the best economists I know of, and because of the conditions obtaining in the countries competing with us, Great Britain and the United States, I think it would be an unreasonable and damaging thing to fix the rate of interest to be charged by the banks. In the second place, I am prepared fully to recognize the need of lower interest loans, long term loans and of making provision to cover that field.

Mr. GARLAND: Of course a considerable amount of money would be required to carry out a long term loan proposition, and perhaps you have in mind some way, of doing it apart from the present banking system. Where do you propose to get that money?

The CHAIRMAN: We cannot very well go into that at present.

Mr. GARLAND: It is a fair question. Every rural credit organization in Canada is dependent in the final analysis absolutely on banks that have their charters under this Act. If there is some alternative proposition to that, I think we are justified in asking for that information.

The CHAIRMAN: I do not say that your view is wrong; the only thing I say is, that it is hardly relevant just now.

Mr. GARLAND: Perhaps he has some scheme in view, and it would help us since the point has been raised.

Hon. Mr. STEVENS: I do not desire to delay the Committee more than a moment. It would be foolish to presume for a minute that I should have a scheme in my mind that is definite. I do believe that with the banks co-operating with the Government, plus a representation of the agricultural interests of the west particularly—because they form the bulk of those affected—we could very readily work out a scheme in the near future to meet this need. I could discuss the matter for half an hour, and I would like to do so, but I do not think that I should take up the time of the Committee any further to enlarge upon it.

Mr. GARLAND: You have no definite proposal?

Hon. Mr. STEVENS: No, I would not presume to come before the Committee with a definite proposal.

Mr. IRVINE: Mr. Chairman, I have taken a very great interest in the discussion on this point. I have been particularly interested in the very able and logical presentation of the theme which has just been made by Mr. Stevens.

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There is no doubt, I think, in the mind of the Committee, that excessive interest rates have been charged by the banks in Canada. There has been given to this Committee ample evidence to prove that. Mr. Shaw, in opening this discussion at our morning session, proved, I think, to the satisfaction of all, that these things are occurring; namely, higher rates of interest are being charged, in certain localities at least, and to certain industries, than it is possible for these industries to pay and continue in business. The banks themselves do not refute this. They are willing to admit that under certain conditions they are forced, as they say, to charge exorbitant rates of interest. I presented to this Committee at a previous sitting, a large number of notes, each one discounted at ten per cent. I understand that other members of the Committee here have large numbers of similar notes which may be presented as evidence. I think we may conclude, then, as to this fact, that exorbitant rates of interest are being charged to-day, and because of that the amendments under discussion have been moved in this Committee, one by Mr. Carmichael and the other by Mr. Shaw, differing a little in the details. The fact, however, as I understand the amendments, is that both of them seek to remedy the same evil, namely, the exorbitant rates of interest. Now, the debate has centered so far around the general principle, as to whether it is advisable and practical to fix the rate of interest. That has been the principle under debate. Now, personally I am opposed to restrictions, as a general rule, I do not like to ask that any individual or institution be unduly restricted, but there are certain conditions which develop when restriction seems to be the only way that civilized people know of, to prevent difficulties arising when certain conditions have developed. For instance, it seems to be a reasonable thing that when a monopoly has developed, some form of restriction becomes inevitable in the public interest. If there were a clean-cut competition in banking, as we have in other businesses in Canada, there would not be any movement on the part of any individual or class of people to seek restrictions of the character involved in the proposals under discussion. It is because the banking system of Canada has become virtually a monopoly that some restriction as to interest charges must be imposed, in the protection of and in the interests of the general public. The Bankers' Association constitutes a monopoly in so far as the fixing of interest rates is concerned. It has been shown conclusively that all banks charge the same interest, and pay the same interest on deposits in similar localities. It was shown this morning from the evidence taken by Professor McGibbon in Alberta, that there is an understanding, at least, through the Bankers' Association, that in matters of policy the banks shall all do the same thing. That is exemplified in Alberta, where all banks began to discount at the same time. Now, I say the Bankers' Association, or the representatives of that Association, has not denied that there is this general understanding, and if they did deny it, I should challenge the Bankers' Association to bring to this Committee the minutes of the Association since its inception, and I would be very much surprised if we did not find in those minutes something that would have reference to the fixing of interest charges, and the fixing of the amount of interest that is paid on deposits. I believe that the Association will not seriously deny that there is an organization of bankers to protect the interest of bankers, and that they have a general agreement with regard to interest, and with regard to other matters of banking importance. That being so, then this Association is virtually a monopoly, and that fact changes the whole aspect of this question. If we had even 17 separate banks in Canada, operating separately, without any associations and without any arrangement as to interest charges, in clean-cut competition with each other, then the fixing of interest rates would probably be a very unwise thing, but instead we have 17 banks with one single thought, to charge the same interest at the same place, and to pay the same rate of interest

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at the same place. Therefore, in so far as interest is concerned, we have a distinct monopoly by the banks in Canada, and therefore this Parliament or any Parliament would be justified in taking the only step which civilization has been able to take with regard to the protection of itself, namely, restrictions. If this is not done, the people will have granted privileges of note issue, for instance, to the banks of Canada; granted to them virtually the monopoly of the financial situation of the Dominion of Canada, and then they have still to permit the banks to charge whatever interest they may wish, having with common consent destroyed competition which otherwise would have regulated the rate of interest. That, then, Mr. Chairman, is the principle; that is the reason; that is the justification for these amendments. Remove the monopoly of the Bankers' Association, stop the fixing of interest by them as they now do and there would remain no need for these amendments. It is because of the fixing of interest that is now in vogue, that it has become necessary in the interest of business, in the interest of industry, and in the interests of the general public, that some restriction should be put upon the monopolists. That is the principle.

Now, I want to deal with a few of the arguments that have been put up by those who are opposing the amendments before the Committee. I am going to touch very briefly indeed on Mr. Ladner's objection, because I have noticed that other speakers—I think nearly all of them—have disagreed with the basis which he laid for his argument, and so it would seem to be thrashing a dead horse for me to reply at any great length to the point which he raised. He based his objection to the clause under discussion on the doctrine that money is a commodity, that we cannot fix the prices of commodities such as potatoes, boots, and clothing; these cannot be fixed in a practicable way, and it would be unfair to fix them. So, as money is a commodity like clothing and boots and potatoes, we must not think of fixing the rate of interest, or the price of money. Now, I want to refer first of all to the evidence of Dr. Adam Shortt who, I am sure, impressed the Committee, and whose opinion will, I feel, be taken as being perfectly orthodox and standing on the firm rock of the doctrines of Adam Smith in his *Wealth of Nations*, and representing, I am sure, the viewpoint of the Bankers' Association. I asked Dr. Shortt, referring to his definition of money and credit,

"Q. I quite agree with your distinction. Its chief function and sole function is the means of exchange?—A. Yes.

"Q. You deny that money is a commodity?—A. Yes.

"Q. Would you deny that it is being used in the banks at the present time in the capacity of a commodity?—A. I never heard of it."

I would also like to refer very briefly to the statement of Sir Edmund Walker on exactly the same subject. The question was put to him,

"Q. Would you agree, then, that money is at present a commodity?—A. No, money is not a commodity.

"Q. You say money is not a commodity. Would you agree that it is used as if it were a commodity?—A. No, I do not."

So, since these estimable gentlemen, one of them a Professor of Economics and the other, I think, undoubtedly one of the ablest exponents of finance in the Dominion of Canada and perhaps able to vie with any of those on the North American continent—since they both come and say that money is not a commodity and is not being handled as a commodity, then I do not need to take up the time of the Committee in refuting an argument based upon the denied assumption.

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Mr. LADNER: I would like to ask Mr. Irvine if dealing in acceptances and bills of exchange, as they do in the Old Country, is or is not, a commodity? These arguments of yours deal with money as a medium of exchange, currency and notes, but my reference was to the articles which they deal with in a business community, and I will ask Mr. Irvine if he will deny that such things as acceptances and bills of exchange are not actually a commodity in the sense that they are competed for in purchases and sales, just as other articles are, such as rubber or copper or anything else.

Mr. IRVINE: These credit instruments referred to by Mr. Ladner function, wherever used, in the capacity of money; they have no other function. They are not purchased any more than is money purchased, when I go to the bank to make a loan.

Mr. LADNER: Are they not commodities in the same sense that copper and rubber and wheat and other things are bargained for and dealt with in the commercial world?

Mr. IRVINE: They are most decidedly not, but I would be willing to admit, as I was willing to admit to these very gentlemen to whom I have referred, that money is not a commodity, and no credit instrument which functions as money should be a commodity. However, while none of these things are commodities, the banks use money and credit instruments as though they were commodities, and that is one of the fundamental criticisms I have to make of the present financial system. So there we have the situation. Any one knows, says Mr. Ladner, who has ever given thought to the question of finance and exchange, that money is a commodity, and I reply that any one knows money is not a commodity, but every one knows that to a certain extent money is being used as if it were a commodity.

The next point of Mr. Ladner's argument, was that if we should fix the rate of interest, capital would flee, would suddenly develop angel wings and fly to other climes more congenial for its development. I must reply to him in the words of Dr. Adam Shortt, that money is not capital. That is what I was confronted with while asking questions of the representative economist of the Bankers' Association. Therefore, if money is not capital, according to the dictum of our highest court of appeal insofar as this Committee is concerned, even supposing we do fix the rate of interest and capital flees, money will stay with us, for it is not capital according to Dr. Adam Shortt. So, unfortunately for Mr. Ladner, he based his argument on two false principles which, when he came to rest upon them, did not happen to hold good. They failed to hold, and left his argument dangling in the air something like a scarecrow, although I have no doubt there were some good points in Mr. Ladner's mind.

Now, I come to deal with the argument of the Minister of Finance.

Mr. LADNER: Just before that. If you had \$10,000 in the savings department of the bank—

Mr. IRVINE: If I had, probably I would not be here speaking against the banks.

Mr. LADNER: —and by legislation, the banks could only use that at 7 per cent, but if in some other part of the country, or some other country, you could get 10 per cent, do you say that you would not place that where it would bring the greatest revenue, and that that amount of capital or money—you can use either word—would be placed in another country?

Mr. IRVINE: I can reply to your argument by an illustration, I think. Let us imagine that donkeys were not saleable in this country, but horses were, and that I tied a handkerchief around a man's eyes, and sold him a donkey for a horse. Would that prove that the donkey was a horse? Simply because I might

go where a higher rate of interest is paid on my money, does not prove that money is a commodity, any more than the other transaction would prove that the donkey was a horse. You may, as I have admitted, use money in the capacity of a commodity, but that does not prove that it is a commodity. I can anticipate the humorous reply which is possible in this connection, but I will deal with the other phase of your argument, as I proceed.

The Finance Minister, seemingly under the same misunderstanding as Mr. Ladner, offered his objection from a slightly different angle. He is unfavourable to the fixing of the rate of interest, because it would make it difficult for borrowers to get money. Now, let me examine this argument of the Minister's a little in detail. Let us assume with Mr. Ladner and with the Minister of Finance that money is a commodity. While I am not admitting that it is a commodity, I have admitted that it is being used as a commodity. Now, let us use their own illustration. Does any one suppose it would be difficult for the people of Canada to get boots if we lowered the price of boots? Does anyone suppose it would be difficult to buy horses if the price of horses were reduced? If, then, money is used and sold as are other articles, then will the lowering of the price of money make it more difficult to get money? Where is your logic? Where is your position? It is immediately gone. As a matter of fact, I intend to show that lowering the rate of interest, especially where it is fixed at a definite amount, will mean that more money will be borrowed than is being borrowed at the present time; more money will be borrowed, in the first place, by reputable firms who to-day are borrowing just as little as they can get along with, because of the high rate of interest. If a reputable firm which has borrowed \$3,000, say, at 8 per cent interest, could use more, it does not borrow any more because the interest is high, but they might borrow twice as much, \$6,000, say, if the interest rates were approximately half as high, so the profit to the bank would be the same. More money would be borrowed, a greater volume of business would be done, and business would be in a better position. It is easy to see how cheaper money will increase the borrowing rather than decrease it. Let us put it in this way, that the turn-over, if you like, will be greater when money is cheap than it would be when money is dear. Now, it was asserted by Sir Edmund Walker that there are great quantities of money in the banks of Canada that are not being loaned out at the present time. Surely, it is no wonder that there are great amounts of money in Canada not being loaned out, when the rate of interest is so high that people cannot possibly conduct business and pay it. When that amount of money that he referred to is held out of use, it is reflected in the industrial paralysis that we have witnessed for several years in Canada. A cheaper rate of interest would force that money into circulation; there would be a greater demand for that money, and the beneficial results which I have indicated would accrue to the whole nation. It is better to lend money at 7 per cent than to keep it in the tills and pay three per cent on it, when it is bringing in nothing. That is my reply to those who say that if these clauses were passed and the rate of interest were fixed, the banks would not lend money at all. We know perfectly well that the banks have got to loan money. In the first place, they are paying—I think it is—3 per cent on deposits at the present time. When the banks lend money, they are lending the money of the depositors of this country. The banks cannot afford to take deposits at 3 per cent and refuse an opportunity to loan it out on good security at 7 per cent.

MR. GARLAND: May I ask a question. If your argument is true, why is there, as we heard from the bankers here, several millions of unemployed money in Canada?

MR. IRVINE: I have answered that already, by saying it is no wonder, when the rate of interest is so high; people cannot possibly use the money. I

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repeat, that if the rate of interest, instead of running up as high as 12 per cent, were fixed at 7 per cent, there would be less money in the tills, and the banks would be in better shape, because the money that, as Sir Edmund Walker said, the banks have to lend and cannot lend because there is no demand for it, is costing the bank 3 per cent while they keep it, and therefore it is a bad thing for the banks if they fix the interest so high that they are prohibiting people from using it. I repeat that the banks have to lend money for two reasons. First, they have got to lend their money because they cannot afford to pay 3 per cent on money that is not earning money for its keep, if you will. They have to put it out, in the second place, because we will make them lend money, if we want it. They are at least semi-public institutions, and while we have, or are about to confer on the banks the right to handle this institution, we are by no means, going to allow them to run the whole affair if they do not give good service. If they hold up the circulation of money because we restrict the rate of interest, we shall have to take steps to make them lend that money. The banks are running on the deposits of the people. The public only gets 3 per cent on what is put into the bank. The banks are allowed to make whatever percentage they can on loans.

MR. WOODSWORTH: Why does not that money go abroad, on the theory that there is an international ebb and flow?

MR. IRVINE: For the reason that our Chairman so ably pointed out not long ago, money never goes away, it never goes anywhere.

THE CHAIRMAN: I said our currency never goes abroad. Our money goes abroad sometimes.

MR. IRVINE: I would like to debate that with you, too, Mr. Chairman. I think our money does not go abroad any more than our currency does. You have stated repeatedly that we pay our debts in commodities, and if there happens to be a balance unpaid, we try to fix it up with gold, but we do not pay it with stocks, bonds, or currency, but with trade, and what we cannot pay with trade, we pay with gold.

THE CHAIRMAN: Individuals would leave their credit balances abroad if there were a more favourable rate of interest abroad than at home.

MR. IRVINE: You are anticipating something there that, in the first place, is not likely to occur, but if it does, then we shall have to take steps to prevent it occurring. That is the only answer to that at the present time.

Here is another point in connection with the principle that I was developing. We have heard a great deal in this Committee about widows and orphans, that they should be protected no matter what might happen. Now, just imagine our widows and orphans depositing money in the banks, gentlemen, and the banks loaning it out at 10 per cent because it is risky; just think of the risk that our widows and orphans are taking with their money. Gentlemen, I tell you that this cannot go on. In the name of the widows and orphans of this country, I appeal to you to fix the rate of interest at 7 per cent, because if you allow the banks to exploit the money of the widows and orphans at 10 per cent, you are endangering their savings, and you call upon yourselves the anathema of these poor people who have been so dealt with. No man can pay 10 per cent and stay in business. As a matter of fact, I do not think anyone can pay 8 per cent and stay very long in business, but I think we are safe in saying that as a general rule no business can pay 10 per cent and 12 per cent interest, and continue solvent. But the banks reply, "We charge this rate of interest because of the risk involved." I reply to the banks that if you charge 10 per cent interest, you increase the risk by that much, and if you want to minimize the risk, lower the rate of interest. That is the only logical thing

to do. Do you make your donkey carry more by putting more on his back? If you do, you have a peculiar type of donkey. If you want him to carry it further, take some off. If you want these risky things to come through, do not burden them too much. If a good man cannot come through paying 10 per cent, how can a poor man come through with that on him? That is an absurdity. It is an excuse of the bankers. It is not good reasoning; it is economically false, and I do not think it gets us anywhere. That is the only argument that has been put up for the banks having charged 10 per cent and as high as 12 per cent interest to the farmers of the West. I therefore submit, Mr. Chairman, that it is better to lend at 7 per cent than at 10 per cent, for, if the case is risky, it is better not to loan at all. It has often been said that the farmers of the West have got too much credit. They would not need to get very much before they would have too much at 10 per cent. You had better lend to them at 7 per cent and ensure their security than loan at 10 per cent and 12 per cent and destroy the security and put them out of business. What happens then? I will refer you to the letter read by Mr. Spencer to this Committee showing how a bank, pressing for payment after having made a loan to a man, forced him to sell his sheep and his horses at a terrific loss, and thus we had the destruction of business and the destruction of industry by the bank, changing what was really a good loan to a bad one owing to the way they conducted the loan.

Now, I come to the argument by Mr. Baxter. His argument was, I am glad to say, diametrically opposed to that of the Minister of Finance, although they are both speaking against the passing of these amendments. They are both defending the present system, and are diametrically opposed to each other as to the effect of the amendments that are proposed. The Minister of Finance says that borrowers will not be able to borrow if you fix the rate of interest. Mr. Baxter says, "Why, it will not make the slightest bit of difference to the borrower; he will get his money, but what I am afraid of is that instead of having a few banks now who are practising usury, you will develop a new school of usurers, so it is better to limit this, than to compel other people to follow it." That is the effect of the argument, as I understood it. In other words, this learned member of the legal fraternity tells us, and points out to us the obvious limits of all legislation. The fact of the matter is that according to this argument laws are futile and I am surprised to find the honourable member for St. John advocating what is nothing short of anarchy, for there is no more reason why the law should not be effective with regard to this clause than there is that it should not be effective with regard to any other clause in Bill 83. There is no more reason why this should not be effective in this Act than that the law should not be effective in regard to anything regarding which legislation is passed. I am rather inclined to agree with the logic of Mr. Baxter's position, that law is of very little value; I am rather inclined to agree that we have a thousand times too many laws. I am rather inclined to agree that they do not get anywhere, but let us be anarchists out and out, then. Let us be fair in the matter, let us wipe out Bill 83, put it in the wastepaper basket. Why wipe out the one clause? I agree with Mr. Baxter's philosophy, but I do not agree that its application should be confined to one specific clause in Bill 83. That is the point I am raising the objection to, and I think the Committee sees the logic of that point. It will either agree with me to incorporate this clause or wipe out the whole Bill, on the ground that the law is no good anyway. I venture to say there is not one single clause in Bill 83 that the bankers of this country cannot get around if they want to. I will go further, and say that they get around almost all of them anyway. I will say that they will undoubtedly get around this, but that is no more reason for leaving out this clause than it would be for leaving out all the others that we have so thoroughly discussed in this Committee.

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Now, I have still a few very important points, Mr. Chairman. It is now past six o'clock, but if you wish me to finish I will do so. I do want to answer Mr. Stevens at some considerable length.

Mr. MARLER: Gentlemen, there is a matter I would like to bring before this Committee. The number on this Committee is 79 or 80; the quorum is 21, and it seems very difficult to get a quorum. Of course, the Committee is unnecessarily large, it should not have been more than about half of the eighty, and I think it is necessary that we have a smaller quorum, because frequently we can start the proceedings of the Committee with a smaller quorum, so I would propose this motion:—

“That the quorum of the Select Standing Committee on Banking and Commerce be reduced from twenty-one to fifteen members, in accordance with the recommendation contained in the Seventh Report of the said Committee.”

Motion declared carried.

The Committee adjourned until 8.30 o'clock p.m.

 EVENING SITTING

WEDNESDAY, June 6, 1923.

The Select Standing Committee on Banking and Commerce resumed at 8.30 p.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Please proceed Mr. Irvine.

Mr. IRVINE: Mr. Chairman, the Committee listened so patiently to me this afternoon that I promise that I will not take more than a very few minutes to conclude what I have to say. The only argument against the amendment that I did not deal with was the argument of Mr. Stevens, and I am bound to say that if this Committee paid any attention to arguments in arriving at a conclusion, to my mind his argument would be the one that would count for the most among those who have spoken against the amendment. Perhaps I should not put it that way. With much that he said, I agree. He divided his argument into three main divisions, and followed them ably and logically. His first argument was placed under the heading “historic,” and I wish to deal with that very briefly, from my viewpoint. He showed that usury in the past could not be legislated against; that in fact it had been tried, that a great number of laws had been passed, I think in Great Britain against the practice of usury, but that those laws had ultimately been abandoned because of their impracticability. Now, my answer to that is that the laws against usury were abandoned when plutocracy came to power, and the excuse for abandoning them was their impracticability. I am not quarreling with Mr. Stevens’ facts, I am quarreling with his interpretation of the facts. My interpretation of the facts is that those laws were abandoned not so much because they were impracticable, as because plutocracy had come to power, and plutocracy being the greatest power in the nation, dictated the legislation of the country, with the result that those laws were abandoned.

The next point I would advance in reply to Mr. Stevens’ argument is in regard to the statement that economic conditions have materially changed since 200 or 300 years ago, the period with which he was dealing. There is very little ground for comparison. The main change that I note, so far as this argument is concerned, is that competition in the financial system which was very keen in the Historic period to which he referred, is now practically done away

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with; and we have in its place a monopoly. So that whereas it might be very difficult to impose or practise usury laws under this Bill, and it would perhaps be unwise to do so to-day, the circumstances are very different. As I pointed out in the beginning of my argument, we have practically a monopoly in Canada at the present time, and that is the only justification we could have for putting restrictions of the character implied in our amendment. But here is the clinching argument against Mr. Stevens: This is also historic, though of much more recent date than the period to which he referred. The most recent fact of history is that the banks have already fixed the rate of interest and get away with it. It is in practice. If the banks can fix the rate of interest, both up and down, on what they take on deposit, and on what they lend, and fix it in their own interest, I submit that it is not more difficult for the Government to fix the interest in the interests of the people. That is an historic fact, and, as I say, more recent than the facts to which Mr. Stevens referred. It is also more in keeping with the economic conditions which have changed so wonderfully since the historic period to which he referred. When it comes to the economic viewpoint, I am frank to admit that Mr. Stevens' knowledge of the details of practical financial problems is so far beyond mine that I would not like to offer any criticism. I am not afraid to meet him on the principle involved in his "historical" argument, but I am going to leave the details of his financial argument to Mr. Shaw or others of the legal fraternity.

I come to his third division which was under the heading of "comparative." In this connection he brought forward evidence from the Commonwealth Bank of Australia establishing the fact that they had made 9 per cent profit whereas the Canadian banks had made only a little over 6 per cent. This turned out to be an argument in our favour, as I see it, or in favour of those who are advocating this amendment. The Canadian banks charging all the way from 6 per cent to 12 per cent interest can only make 6 per cent profit, while the Australian Commonwealth Bank, charging a much lower interest, made 9 per cent profit, which substantiates my contention that if you reduce the interest on money you will have more money to lend and will make a bigger turnover. To my mind, that was handing over the argument to us. So that in his historic arguments and also in his comparative argument, I submit that Mr. Stevens played into our hands.

Mr. Stevens and those who have opposed this amendment, will I think admit that we have usury practised in Canada, not perhaps to any great extent, but certainly where it is practised, it is practised on the people who are least able to bear it. I think they fully recognize that the difficulty is here, but they have not made a suggestion so far that would enable us to cope with that difficulty. The difficulty is here, and it must be met. The amendment is one way of trying to meet it, and no other way has been submitted.

To sum up Mr. Chairman, I have tried to show that a monopoly exists, that where a monopoly exists restrictions are imperative in the public interest. I have tried to answer Mr. Ladner's argument based upon the false ideas that money was in itself a commodity and that the money was capital. In both of these respects his argument fell to pieces. I next attempted to answer, and I think I answered completely from my point of view, the argument of the Minister. I tried to show that borrowings would be increased by a cheaper rate of interest rather than hindered as he contended; and, moreover, that the fixing of a lower rate of interest would be in the interest of the depositor, for the bankers under the condition proposed would not take bad risks at 10 per cent and perhaps lose the money of our widows and orphans. I also tried to answer the argument of Mr. Baxter as to the effectiveness of legislation, and I think you will agree with me that this particular legislation could be made as effective as any other part of the Bank Act. If there are any reasons why this Section cannot be enforced, any

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better reason why it cannot be enforced as well as any other Section, I would like to know them.

In view of these arguments, in view of the fact that those who oppose this amendment conflict with themselves—as I pointed out, whereas the Minister of Finance says that this would restrict loans, another opponent of the amendment points out that it would not restrict loans at all—in view of the fact, as I say that their arguments conflict and that many of them lack a sound base and are unsupported by facts, I submit that this amendment ought to carry if we vote on the merits of the case.

Mr. GOOD: Mr. Chairman, before any other speaker takes part in the discussion, I would like to submit again that there are a good many of us who are very anxious to hear the discussion in the House. We will be called upon to vote to-night on the question under discussion in the House, and I think it is scarcely fair to have the Committee meeting here to-night which, if continued, would leave us in a position where we could not vote intelligently on the question being debated in the House.

The CHAIRMAN: The motion to meet to-night came from the Committee at six o'clock, and I cannot change it.

Mr. GOOD: I understand that, but I thought that possibly the matter had not been fully considered, and that it would be wise to reconsider whether or not we should adjourn now so that we may proceed to the House. I think that the idea was to hear Mr. Irvine finish. He has finished, and I think we might adjourn and go to the House.

Mr. VIEN: We adjourned until to-night in order to proceed with our work. If a division is called in the House, the bell will ring and we will hear it. If Mr. Good would like to go to the House and take part in the debate there and give them the benefit of his views on the subject, he is quite free to go, but so far as we are concerned, at least, so far as I am concerned, I am anxious that we should go on with this discussion and carry it through to a vote.

Miss MACPHAIL: Possibly Mr. Vien and those who vote at the dictates of some control—

Mr. VIEN: I rise to a point of order. I am extremely sorry to have to rise to a point of order against my lady colleague, but I cannot allow even her to say that I vote at the dictates of anybody.

Mrs MACPHAIL: I beg Mr. Vien's pardon. Everyone does not need to hear the discussion to know how to vote. It was quite definitely stated in the Committee that we would vote on each question on its merits, but this one of oleomargarine has been so beclouded and befuddled by two or three amendments, it is at least necessary to hear the arguments put up on each side. I do think it is an imposition to hold this Committee meeting to-night. Of course, it is true that the Committee decided this afternoon that we should meet to-night, but none of our group at least had any say in it.

The CHAIRMAN: I should hope that we would dispose of this Section very quickly. No useful purpose can be served by taking any longer time, and after the Section has been disposed of, the Committee could adjourn.

Mr. SHAW: I wish to make one or two observations. Mr. Garland tells me that he desires to speak on this subject, and Mr. Coote told me a few moments ago in the House that he also desired to speak. I do not know whether anybody else wishes to take part.

Mr. JELLIFF: I understand that Mr. Spencer desires to speak.

Mr. SHAW: I myself wish to make a brief reply to the very pertinent observations made by those who are opposed to the amendment I have intro-

duced. We have sat twice to-day already, and I think we have done very well. The question of Oleomargarine, which is being debated in the House is of considerable importance to a great many people. I was not in the House this afternoon, but I understand that there has been some discussion as to whether or not some pledge was given in 1917 with regard to the permanency of the oleomargarine legislation. I have not heard a single word of the debate, so how can I intelligently cast my vote in the House on that proposition? I do not know whether a pledge of that kind was given or not, but I think it is only fair to those who want to do their duty that they should be given an opportunity to hear the discussion in the House, especially when we have sat twice to-day. I do not object to the Committee sitting as often as they like—let them start earlier in the morning if they so desire; but certainly it is carrying the thing a little too far to keep us here when we should be in the House listening to a very important debate.

The CHAIRMAN: May we not conclude our deliberations on this question quickly?

Mr. SHAW: I think not.

The CHAIRMAN: Is there anything further to say?

Mr. SHAW: I do not agree with you.

The CHAIRMAN: There may be something new, but it should not take long.

Mr. SHAW: I do not agree with you at all. I think this a very serious matter to very many people in western Canada, and if the eastern Members are prepared to close their minds to any argument advanced on behalf of western Canada, there is no use in discussing the matter at all. If it is a mere farce, let us conclude it.

Mr. GARLAND: I am in very much the same position as Mr. Shaw. I was in the House before I came here, and I heard Mr. McMaster speak. I have not heard any other part of the debate except Mr. Carroll's introduction. I do not know how I am going to vote on the matter unless I go to the House. I wish to take part in the discussion before this Committee, and I really think it is rather an imposition to have us sit here tonight. We have sat twice already; this is our third sitting to-day. After all, there is a limit to what one ought to be expected to do, and I think that limit has been reached. I think we are entitled to go to the House, for if I cannot hear part of the discussion on oleomargarine, I cannot vote, and I do not want to lose my vote.

The CHAIRMAN: I would like to hear from other Members.

Mr. BAXTER: I moved for the adjournment in the afternoon. My mind was made up on oleomargarine, because it is only a matter of one kind of grease and another kind of grease, so far as I am concerned. I would think that after the very full discussion that we have had to-day in the Committee we might proceed to a vote. There are just two main views before the Committee. If we were discussing the details of the amendment it might be important to have further discussion, but I understood that we were going to vote some time on the general principles of the amendment and not on the details. If we could arrive at the stage of voting on the general principles then we could adjourn until tomorrow to enable Members to get together and work out one amendment that would cover the case. If, on the other hand, the Committee decides against the spirit of the amendment, then our work is done, because that would be equivalent to adopting the Section as it stands. I do not say that my mind is absolutely sealed in regard to the matter, but I fancy that if we were to discuss this for a week our vote would practically be the same. I would therefore suggest that we vote upon the principle, and then those who want to go to the House can do so.

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Mr. SPENCER: Do you move a motion to adjourn?

Mr. BAXTER: No.

Mr. IRVINE: If we do not look out we will spend all our time discussing whether we should adjourn.

Mr. SHAW: I move that a time be fixed for to-morrow so that we can have a vote. I do not care what time is fixed to-morrow.

Mr. VIEN: I think it is excessive humility which prompts those who say they cannot vote on oleomargarine without hearing the discussion. It has been the subject of discussion in the House time and again, year after year, and gentlemen who claim ignorance of the subject have taken part in the debates in other years.

Mr. GARLAND: I rise to a point of order. I want to inform my honourable friends and the honourable members of this Committee that I know nothing whatever about the subject of oleomargarine, and I can only make up my mind by hearing the discussion in the House.

The CHAIRMAN: It was moved that we should meet at half past eight, and the motion was carried. We have, I should say, discussed all phases of the matter under discussion, and I think we should dispose of this section now within half an hour, and then let that end it.

Mr. SHAW: That position, it seems to me, is entirely unsound. I have probably taken up as much time as anybody, and I have tried to get through as rapidly as possible. I have not any doubt that every member from Alberta has been deluged with petitions and recommendations of various kinds in connection with this matter. I want to state for the benefit of my friend, Mr. Vien that if the question were simply that of oleomargarine, I do not want to hear the discussion at all; I am prepared to vote, because I see no reason for changing the position I took last year. But an amendment has been brought in which brings in the question as to whether or not a definite promise was made in 1917, and I would like to hear about it, so that I can vote on this amendment.

The CHAIRMAN: Gentlemen, there must be some very clear manifestation of the opinion of the Committee.

Mr. SPENCER: I move that we adjourn until 4 o'clock to-morrow afternoon. Motion declared lost.

The CHAIRMAN: Now, gentlemen, let us go on for a little while at any rate.

Mr. GARLAND: Mr. Chairman, the question under discussion has taken a fairly wide range; we have gone back 300 years in history; we have dealt with Bacon, we have dealt with socialism and anarchy, and a great number of things. What I am going to deal with is really the practical situation that is facing us, particularly in western Canada. We have been informed by Sir John Aird and the representative of a western bank that they cannot reduce the rate of interest for the reason that if they reduce it, the profits would be too small; the Weyburn Security Bank might have to close its doors, and with the larger banks the profits would be too small. These were merely opinions. There was no proof to substantiate the statements, but I submit this: Even if they were true, even if the statements of both of these gentlemen were true, then it is the business of this Committee to decide between the agriculturists of Canada and the shareholders of the banks, whose profits may be cut to say 3 per cent or 4 per cent.

Now, the situation in western Canada is so well known that perhaps I need but touch on it very briefly. The honourable Minister of Finance and, I think, one or two other gentlemen including Mr. Mitchell, indicated this morning that

the charging of exorbitant rates of interest was rather isolated, that it was not a general practice. I happened to anticipate that an argument of that kind might be put up, and I sent out a questionnaire, to cover a large portion of Alberta. I have received replies from these districts, covering roughly about 12,000 square miles of the most densely populated part of Alberta, the greater part of which has been under farming operations for over eighteen years. Twenty-seven districts, representing all banks, report a rate of interest of 8 per cent compounded, or over; that is, from 8 per cent compounded up to 10 per cent, and in some cases, 12 per cent. If any member so wishes, I would be glad to give the names of these districts. For example, you have in the district of Morrin where the Bank of Commerce is operating, 8 per cent compounded for three months. You have in Craigmyle, 9 per cent in some cases, an average of 8 per cent in all; the Royal Bank is there. You have at Big Valley the same state, with the Royal and Imperial Banks operating. In the town of Hanna, you have the Bank of Toronto, Bank of Commerce, and Union Bank, with an average of 9 per cent. In the town of Parr, you have the Union Bank and the Bank of Commerce, charging 9 per cent. You have at Richdale, 8 per cent compounded, by the Bank of Commerce and the Royal Bank; at Sunny Nook, 8 per cent compounded. At Pandora, 9 per cent, and so on.

The CHAIRMAN: Is this an average?

Mr. GARLAND: This is the statement, the considered statement received, giving the average rates of interest charged by these banks in these districts.

The CHAIRMAN: In the answers to your questionnaires?

Mr. GARLAND: Yes, covering, as I say, 12,000 square miles. My friend Mr. Spencer has sent a similar questionnaire, and he is receiving replies which indicate a very close similarity of conditions. Now, as every member of the Committee knows, the financial position of the people in western Canada is a very bad one, so I need not deal with that any longer.

Mr. HANSON: Might I ask this: did not Professor McGibbon examine into this, and did he not report that, aside from isolated cases, the average rate of interest was 8 per cent?

Mr. GARLAND: I do not know. I have not read that report.

Mr. SPENCER: I have his report here, and he said he did not know of anything less than 8 per cent, and it went as high as 10 per cent.

Mr. SPENCER: He was referring to the farmers.

Mr. GARLAND: My remarks deal with school districts, municipalities, or individual farmers, and what I have given here are simply averages. That is an appalling state of affairs, as any honourable gentlemen can realize. These people are in a desperate state, and this present interest charge is simply pressing them further and further into a condition of hopeless despair. I want to emphasize that, and to bring it to your attention.

I will ask you to regard the action of the Canadian Pacific Railway Company recently. They realize this, and are vitally interested in western Canada. I cannot understand why there is not some more sympathetic attitude on the part of the banks, unless it be that they hope for the development of a rural credit scheme which they are not prepared themselves to father. Dealing with the Canadian Pacific Railway's attitude, that company has studied the state of affairs amongst the men who hold land purchased from them. It knows they can not afford to pay a high rate of interest, they can not keep up under the existing conditions, and the following is briefly the interest clause of the plan presented by President Beatty on their behalf. "The settler will pay the same amount annually for 34 years, and upon completion of the 34th pay-

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ment will receive title to the land. *It is assured that no annual payment of interest and principle shall exceed 7 per cent of the cost of the farm.*" The company recognizes the necessity for the reduction of the rate of interest, it recognizes that the people under the present conditions cannot carry on, and will not stay in western Canada under existing conditions. There is no doubt in my mind that the rate of interest charged has had a great deal to do with the discouraged state of a great proportion of the people of western Canada to-day. Mr. Beatty, speaking on this matter, said:

"They find themselves (the farmers) behind in their payments, and a certain amount of discouragement has resulted, which, if unchecked and allowed to go must inevitably spread wider, bringing a state of pessimism, with its attendant problems."

The Canadian Pacific Railway is sufficiently far-sighted to do, in its way, what it can. Surely this Committee, in the interests of the Dominion of Canada, and particularly of western Canada, can do as much to meet the situation as the Canadian Pacific Railway Company has, by preventing these exorbitant interest charges. That is what we are seeking, and I believe that is the principle that is involved in Mr. Shaw's amendment. I would ask that the rate of interest be cut down to a rate in the best national interests.

Now, it may surprise some Members of the Committee to know that even this apparently low rate of interest proposed by the Canadian Pacific Railway, does not yet meet the situation, according to the report of a committee of the farmers on the C.P.R. land, held to discuss it. This committee has sent a request to the effect that the rate of interest should be reduced from 6 per cent to 5 per cent. Mr. Stevens and other honourable gentlemen may argue that this is a matter entirely within the range of a rural credit scheme. I submit to this Committee that no rural credit scheme is within sight; there is no practical scheme in Canada at the present time, there is nothing that will meet the requirements of the situation out there, and until there is, I do not think we have any right to look at the alternative and pass over the present situation altogether. We are looking at something that is not in existence. If anyone will suggest a practical rural credit scheme, and show me where the money is to come from, all right. Let us look at that a moment. Mr. Stevens mentioned that to-day, and I think he made a very excellent presentation of his case. But, he has not satisfied me that he knows where the money is coming from. At the present time, the money comes from the banks operating under this very Act, operating under the bank charters granted under this Act. As long as that state of affairs continues, as long as we must go to the banks, then so long is this matter of interest of vital importance, and we must be governed in this matter by the interests of the west and the interests of Canada. But you say no, we will have to devise some other means of getting the money. What are we going to do? It has been suggested that if we want to borrow any money, the Government will do the borrowing; it will go abroad and sell bonds. That hardly meets the situation, and I do not think it will meet with the general approval of this Committee, and I doubt very much if we would get such a scheme through. Now, until there is a better solution arrived at, I do not think we are warranted in freeing the banks from a restriction in the rate of interest to be charged. That is one of the chief reasons I give for supporting the amendment of the honourable member for Calgary.

I suppose there are a good many honourable members who realize just how this thing is permitted in the West. Here is an example. Say a farmer requires a loan of \$1,000. He goes to the bank and asks the manager for it, and a statement is taken from him. His note is made for three months, at the rate of 8 per cent. At the end of three months a notice is sent to him that his note

is due. The bank manager knows that this man cannot meet that note. He has had nothing to sell in the meantime, and no way of meeting the note. The man goes in to the bank manager, and the manager says, "Here, your stuff has depreciated; market conditions were wrong, and it looks as though the fall is going to be a bad one. You will have to give me more security and an increased rate of interest." The man has absolutely no option; he cannot pay the money, he must renew it, and he must take the bank's terms, and I will tell the honourable gentlemen of this Committee that that extraordinary power is wielded to the utmost. In every case I know of, that power is used to the limit.

Mr. VIEN: When he first gave the note for three months, did he not know that he would not be able to pay it?

Mr. GARLAND: Oh yes, quite so; the farmer, when he goes to the bank, says, "I cannot pay that in three months," and they say, "This is a mere formality; we will renew the note for you." I can give you hundreds of examples where the creditors of the banks, where the farmers were indeed liquidated; their grain, their stock, everything possible fell to meet their indebtedness to the bank on the promise of an extension of credit, a promise which was not kept in hundreds and hundreds of cases. That is a state of affairs which you must recognize. Frequently, the bank managers are changed, and the new man says, "I do not know anything about this; that man had no right to make these promises." If any honourable member of the Committee wishes to look over these questionnaires, he can find where that is repeated again and again.

Now, Mr. Chairman, one honourable member mentioned this morning—

Mr. HANSON: Is it the practice to renew for both principal and interest?

Mr. GARLAND: I am glad you brought that to my attention. At the end of the three months, the general practice is this. It may not be invariable, but it is my experience that is the general practice, and these reports bear me out. The man goes into the bank and he secures a renewal, perhaps, through increasing the assets, giving a chattel mortgage on something that is not already chattelled, if he has anything, perhaps with an increased rate of interest. Then the interest is added to the note, and you are paying interest on interest, as well as on the original principal.

Mr. HANSON: Down in Eastern Canada they make us pay the interest before we renew the note. When they renew it, they make us pay the interest.

Mr. GARLAND: They do even worse. I would much rather, if we could pay the interest, pay it, but frequently they cannot do that. Then they renew it for so much more; that is, the interest plus principal.

The CHAIRMAN: Is it a general rule to increase the interest at the time of renewal?

Mr. GARLAND: I will not say as to that, but in the last two years, the general practice has been to increase the rate of interest at the end of each year. That is why, in some cases, it went to 10 per cent, 11 per cent, and 12 per cent. I simply make these statements to the Committee, not in a spirit of pessimism, because I have the greatest hope for this country. I do hope the attention of the Committee will be turned to this really national aspect of the question. One honourable gentleman this morning discussed the question of zoning. There is no doubt in my mind nor, I think, in the minds of the members of this Committee that there is practically existing to-day an artificial system of zoning. If you will look at the map, you will see that practically west of the Great Lakes there is a certain rate of interest. In Manitoba it averages 8 per cent, in some cases 7. In Saskatchewan and Alberta, it averages from 8 per cent to 12 per cent. In British Columbia, I do not know just what it is. In Eastern Canada,

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I am informed that they can borrow money at as low as 6 per cent. I have been informed so by members of the farming community. It may be a rare case, but that is a fact. In any case, I do not think you have to pay more than 7 per cent or $7\frac{1}{2}$ per cent in Ontario. There is at the present time a system of zoning. The rates by zones are so fixed as to bear most heavily on the portions of the country that can least afford to pay them. That is the point, and if you want to pull Western Canada out of the hopeless morass of debt and despair it is in, you must take some of these burdens off its back. Now, you can do that, by some fixing of the rate of interest, and if there is to be any zoning system, I ask you to take into consideration the requirements of the country as a whole, and not apply the principle of "all the traffic will bear."

The Minister of Finance this morning gave us some evidence for the year 1921, the average rate for the whole of Canada. I think he said in 1921 that was 6.54, while the average rate of discount was 7.02. If that is the case, and I have no doubt that it is the case, and we know the situation in Western Canada, must it not be obvious to you that somebody is doing fairly well at the expense of somebody else? Another item we have heard from honourable members is that in Western Canada the expense of the branch banks is so great that it necessitates this high rate of interest. Let me tell you a little experience I had myself. In the town of Rumsey, when I went there first, they had a little bit of a shack about ten by twelve, with one little counter in it. The banker used to come up twice a week and perform his work very efficiently, but a little later on they moved to a bigger place. They took a store, put in magnificent fittings in that store, hopelessly expensive fittings for the town and the business being done. They were not satisfied with that, they had to expand finally into a majestic two-storey building, the biggest and most expensive in the town, and they put in magnificent hardwood oak fittings, with a special floor, and so on. We are paying for all that in the rate of interest. We could do just as well with a reasonably business-like and modestly equipped office. Give them all the conveniences, as to space, that they need; that is the easiest thing in the world to get in Western Canada, but do not pile up on our backs this accumulation of expensive fittings and expensive buildings. You can go to the town of Munson, and see exactly the same thing. Before it became Munson, it had a little shack, which finally developed step by step until to-day you have two banks, one of them in a magnificent brick building, and one in an expensively built frame building. We cannot afford to pay for these things, and we are not asking for them.

Mr. HANSON: How does the rate of interest paid in Manitoba, Saskatchewan, and Alberta compare with the rates in Montana and Dakota?

Mr. GARLAND: I do not know.

Mr. HANSON: Are they not at least 2 per cent lower?

Mr. GARLAND: No, I cannot give you that information.

Mr. HANSON: That is a comparable situation.

Mr. GARLAND: I am sorry I did not go into that.

Mr. SHAW: It is not comparable; these people get far more for their grain than we get.

Mr. GARLAND: The situation I am telling you of is facing us in Western Canada to-day. You have a solution in your hands; you can help us to get on our feet. Take a part of that burden of interest charge off us. This House did its best last year in connection with the Crowsnest Pass Agreement; I do not wish to interject this as a political issue. You did your best last year in connection with the rates; you took it off there, and we are asking you to help us in this case. If you help us to get clear in the West, you here in the East

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will profit accordingly. Gentlemen, this is an appeal to your national instincts, and there is just one last word that I want to leave with you. There is no question in my mind, knowing the attitude of the people in Western Canada to-day, that we are facing a very serious situation. Not all you honourable gentlemen who have not been sufficiently interested to study Western conditions will have seen the effect—and I do not wish to interject this in a sense of political controversy, but as a note of warning that may help you—you may have seen the effect of the budget on the minds of the people. If you could see the letters we are receiving daily in connection with that question, you would realize the intensity of feeling there. This feeling is something that we, as organizations of farmers in Western Canada, are fighting and trying to resist with all our power, but it is growing. That is, the thought of secession. I wish to leave that with you. It is there to-day, it is developing under the influence of the budget and under the influence of the combines, and it will develop further if you continue the present interest rates now being charged to the people of Western Canada. This is simply a warning; we are doing what we can to keep that down, but we cannot if we show the futility of the attempt to convince you people of the help Western Canada is crying for at this time.

Mr. COOTE: It would seem almost needless to say anything after what Mr. Garland has said. As far as Western Canada is concerned, I am going to try and make my remarks very brief. He has simply shown you one side of the picture. I have in my hand a report of the annual meeting of the Royal Bank which appears in the *Financial Post* of January 19, 1923, and I will give you two or three items from it.

"Profits for the year, after deducting charges of management, accrued interest on deposits, full provision for all bad and doubtful debts and rebate of interest on unmatured bills, \$3,958,469.21.

Balance of profit and loss account carried forward \$905,044.98, making a total of \$4,863,514.19. Out of this amount there was appropriated for dividends, at 12 per cent per annum, \$2,448,000; bonus of 2 per cent to shareholders, \$408,000; that is, the dividend and bonus were at the rate of 14 per cent per annum. Transferred to officers pension fund, \$100,000. Appropriation for bank premises, \$400,000. I think that the bank premises account did not really need such an appropriation. Reserve for Dominion Government taxes, including war tax on bank note circulation, \$500,000. You will note that they do not tell us what these taxes amount to. Balance of profit and loss carried forward, \$1,007,514.19.

"The assets of the bank have been, as usual, carefully revalued, in order to make ample provision for all bad or doubtful debts."

Further down it states:—

"Net profits for the year were \$3,958,469.21, being 19.40 per cent on the capital of the bank."

Just as a contrast to that, may I quote from the president's address which is given in this report? He says:—

"It is in the farming community that depression has been most keenly felt. While the grain yield was heavy, low prices minimize the net return on the crop, and the marketing of the 1922 harvest has but slightly improved the position of those in certain sections who had become indebted through two years of bad harvest."

Mr. Chairman, in a return brought down yesterday, and from which Mr. Fielding quoted this morning, I find that the average rate of discount charged by the Royal Bank upon all sums in Canada was 7 per cent, and outside of

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Canada 6.56 per cent. The reason I mention that is that it seems to me a misapprehension has been created by the evidence given before the Committee by the bankers. The Royal Bank is able to earn 19.40 per cent on its paid-up capital, and its average rate of interest charged was only 7 per cent. Surely, if we were to limit the Royal Bank to a maximum charge of 7 per cent their profits would not suffer very materially, or not enough to interfere with the rate or dividend which they are now paying, because the bulk of their loans are in eastern Canada, where I am sure the rate in very few cases exceeds 7 per cent. I think Mr. Garland made it plain to the Committee that in the majority of cases in western Canada it is impossible for the farmers to carry on at a rate in excess of 7 per cent. In many cases they cannot carry on within that rate of 7 per cent. I suppose that some honourable members will say, you are going to interfere with the chances of those men getting credit; but in those cases they would be better off without any further credit. If such high rates are to be charged they had better stop getting credit. I think we had the opinion of Sir John Aird before this Committee that 8 per cent was the limit which farmers in western Canada could afford to pay, and carry on. Now, Sir John Aird's opinion is worthy of great consideration by this Committee, but I suggest that it might be possible that Sir John miscalculated the rate to the extent of 1 per cent.

It has recently been brought to my attention that one bank in western Canada is charging on their past due loans 7 per cent on demand notes; that is, they are not discounting the man's note, they are charging him interest at the end of the year at 7 per cent, if he can pay anything. They are doing that because in that particular section there are many farmers who are leaving their farms, and some of those who have left their farms have left the bank with a bad debt. The bank is anxious to keep those people on their farms, in the hope that some day they might be able to repay the bank, and to encourage them to stay, they have reduced the rate to 7 per cent. But that is the only case that has been brought to my attention where a bank has done that. I, personally, made an appeal to one of the banks a year ago to do that very thing. I said "The small amount of 2 or 3 per cent which you would lose on some of your loans would not hurt you; you would not miss it at the end of the year; you could keep it out of your bank premises appropriation and never feel it, and the little encouragement you would thus give to the farmers, and the improvement in their morale would certainly be worth while from the bankers' standpoint." But the case I have mentioned is the only one that has been brought to my attention where the banks have taken that action. At another point, 30 miles from the one referred to, on the same line of railway, where conditions are slightly better, this same bank in most cases is charging the farmers 10 per cent and discounting every three months, and in some cases once a month. I personally know one man who was charged 12 per cent last summer on a four months' loan.

The CHAIRMAN: Was he of any strength financially?

Mr. COOTE: He had an endorser who made it really good. The owner of the farm endorsed for him and deposited the lease for security.

The CHAIRMAN: It is difficult to judge of an isolated transaction without knowing all the facts.

Mr. GOOD: The point I desire to make clear is—we may argue all night about theories and not get very far in dealing with a situation that needs immediate attention—

Mr. VIEN: Could he not get money elsewhere, if the security was abandoned?

Mr. COOTE: I do not know where else he could get it.

Mr. VIEN: Does not the rate of interest vary according to the security offered?

Mr. COOTE: It does possibly to a certain extent, but it varies with so many things that I find it very hard sometimes to know just for what reason the bank varies it. We should remember it is depositors money they are loaning, not their own, and we have tried here by putting a section in the Act to protect the money of those depositors. We should not encourage the banks to loan this money on very questionable securities. I expect that some honourable Members will say you are shutting off credits to some of those farmers. I do not think it will make any difference. The banks have got to the stage now where they will not lend money without security.

Mr. VIEN: Professor Swanson admitted that the average prospective borrower of the west could not offer security to insure the payment of the loans.

Mr. COOTE: Yes, a great many of those men to whom professor Swanson referred are unable to get any advances from the bank.

Mr. VIEN: You would not advise that money be advanced without some security?

Mr. COOTE: No, I have never advocated that. I do wish however, if I am not out of order, to bring to the attention of the Committee one thing that has been done in Alberta to finance farmers when the banks will not advance them money. This had been done through the Rural Credits Act passed by the Provincial Government, that is for short term credits. The following letter will place the situation before you better than I can. (Reads).

"Replying to yours of February 12th relative to Rural Credits Act, I can say from my experience with this Act the past year at Claresholm that it has been a great benefit to our farmers as last year at this time our Banks were not giving any assurance that they would make any advance for farm operations for 1922. Of course, as soon as our Society was started it made a wonderful difference with our banks.

"The Society had last year forty-four members with seventy-five borrowers. A total of \$46,000 was loaned and all was paid back by January 1st, 1923, with the exception of \$725. For this the Society holds security.

"We are paying the Banks 7 per cent interest and reloaning at 7½ per cent. This is the only thing I can see that is wrong. If it were possible to get 6 per cent money from our Banks or if there was a National Bank established I can see no reason why we should not be able to get cheaper money as the security from these Societies are absolutely gilt edge.

"If this were possible, to my mind there could not be anything better for the farmers to finance their farming operations for the season."

An hon. MEMBER: Who is that from?

Mr. COOTE: T. C. Milnes, Member of the Legislative Assembly of Alberta.

Mr. HANSON: Perhaps you can answer the question which I put to Mr. Garland. Can you give us a comparison between the rates in southern Saskatchewan and Alberta and those in North Dakota and Montana?

Mr. COOTE: No, I am sorry I can not.

Mr. HANSON: Evidence has been given before this Committee to the effect—

Mr. COOTE: You might tell it yourself after I am through.

Mr. HANSON: I asked Mr. Powell when he was here that question and he said that the North Dakota farmers are paying from 2 to 4 per cent more than

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the Alberta and Saskatchewan farmers, and are not getting the accommodation. Do you differ from that?

Mr. COOTE: I know nothing of the conditions over there. The point I want to make is that this security is gild edged, if any security in Alberta is any good, because it is guaranteed by the Provincial Government. I desire to point out the great success which this particular society has achieved. They loaned \$46,000, and it has all been repaid except \$725, and that is guaranteed by the owners of the land in question. The banks in Alberta refused to loan on this class of security at less than 7 per cent. They have refused to loan some of those very farmers who received advances from this Rural Credit Society. But although the banks refuse to loan more money, many of these men who receive advances from the Rural Credit Society are in debt to the banks, and the banks are holding their notes for past due indebtedness, and charging anywhere from 8 to 10 per cent, and waiting in the hope that those men who have been advanced loans by the Rural Credit Society may have enough good crops to make some money which they can step in and seize. I see no way in which you can protect those men except by adopting the principle which is contained in Mr. Shaw's amendment. Those men do not want to avoid payment of their debts, but I submit that under present conditions, if a man has to pay 10 per cent or even 9 per cent compounded every three months or discounted every month on an indebtedness which he has accumulated in years of drought, in years of high prices, he is never going to get out of debt. The probability is that he will throw the whole thing up as hopeless. But if you would say to the banks, you must not charge that man any more than 7 per cent, he would be helped to the extent of possibly 3 per cent.

The CHAIRMAN: What I suppose he requires more than anything else is a long term loan to enable him to liquidate his present indebtedness.

Mr. COOTE: I would like to impress upon the Committee the contrast between the attitude of the banks and that of the Canadian Pacific Railway. As Mr. Garland has outlined, the Canadian Pacific Railway is much more alive to the situation.

The CHAIRMAN: The banks could not very well do what the C.P.R. proposes doing.

Mr. COOTE: The banks could easily say to those men, we will carry your loan, say at 6 per cent—

Mr. VIEN: For 34 years?

Mr. COOTE: No.

The CHAIRMAN: The Canadian Pacific Railway are doing that with their own money. The banks, as you yourself have pointed out, are doing business with depositor's money. Their own capital is tied up. The Canadian Pacific Railway can do as they like. It is a pity that some scheme could not be worked out to lift this load for a period of years, but I do not see how the banks alone can do it. In co-operation with some other bodies they might.

Mr. COOTE: Even if the banks cannot do that, there is one thing that they could do. They are loaning a lot of money in Canada at less than 6 per cent, and I say that they could loan it to those men. The losses are already made, and in lots of cases the banks cannot collect their losses. But they are hoping that the Rural Credit Society will finance those men for four or five years so that if they make a little money they can step in and take what the Rural Credit Society has enabled them to make. If the Committee says that these men are in the hands of the banks, and that we cannot do anything, we are helpless. I do not see how this amendment would work any great hardship on the banks.

I do not believe that it would interfere with their dividends to the extent of more than 1 or 2 per cent, if even that. Surely the banks can stand a cut of 2 or 3 per cent in their dividends if it would help western Canada, because the very high interest charges, the high transportation rates, and the high cost of living are going to react on the general business conditions of the country and on the banks as well.

Just one or two further remarks. It does seem to me that if the Committee absolutely refuses to set any limit on the rate of interest, and at the same time refuses to limit the amount of money which our banks can spend in building palatial offices in this country, with marble pillars and so on, it is not looking at this question from the point of view of the interests of the people. I think it would be much better to say to the banks, "You can do with a few less new offices this year, and you must not charge the people of this country an exorbitant rate of interest which in many cases amounts to nothing less than usury."

Now, just a last word in regard to the question of whether the banks could stand it or not. I do not want to do anything that would injure the position of our banks. I picked up a circular a few days ago, and I would like to read part of it to the Committee, just to show you what good profits our banks are making. It is issued by a firm of investment brokers in Toronto.

Mr. VIEN: What is the name?

Mr. COOTE: A. G. Pattison, Jr. & Co. It contains a number of questions relating to the banks in Canada, but I shall just read two or three. (Reads):

"Do YOU KNOW that twenty years ago there were about twice as many Chartered Banks doing business in Canada as there are at present? To-day there are seventeen.

"Do YOU KNOW that twenty years ago the shares of the Chartered Banks of Canada were selling from thirty to seventy points above the present quotations for these shares?

"Do YOU KNOW that during the past twenty years the business of the Chartered Banks of Canada has doubled and trebled and increased to such a volume that what was done twenty years ago is a fraction of the business done to-day?

"Do YOU KNOW that with just half as many banks to-day as there were twenty years ago, there is much less competition, and notwithstanding this fact, the business of the country is on a tremendous scale as compared with that of 1903?

"Do YOU KNOW that during these twenty years the Canadian Chartered Banks have steadily increased their reserves until all of them are in the strongest financial and physical position?

"Do YOU KNOW that there is no other investment that has the record of paying the regular dividends paid by the Chartered Banks of Canada?

"Do YOU KNOW that during the last few months the Royal Bank has advanced from \$185.00 to \$220.00; Dominion Bank has advanced from \$188.00 to \$201.00; Bank of Montreal has gone from \$185.00 to \$236.50."

When the General Manager of the Bank of Montreal was before this Committee, it seems to me that it was proved that the heads of the banks in Canada, the general managers and the presidents, did not know what was going on in a great many of their branch offices. They did not seem to be aware of the rate of interest that was being charged in some cases by their own managers. If that is the case, I do not see why it should not be within the right of this Committee to say that the rate of interest charged by those branch managers shall not exceed—.

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The CHAIRMAN: You heard the evidence of Mr. Powell, the manager of the Weyburn Security Bank, who said that if he could not charge the rates of interest which he is now charging, he would have to close his bank. You heard the testimony of Mr. Leman, of the Bank of Hochelaga, which has quite a few agencies in the West. He also said that they would have to close up their branches in the West if they attempted to conduct their business on lower rates than now prevailing. Now, what do you say as to that?

Mr. COOTE: I would say, Mr. Chairman, that they are perhaps inefficient.

The CHAIRMAN: It would be interesting and instructive to have your answer.

Mr. GARLAND: May I ask a question?

The CHAIRMAN: You would not say that the manager of the Weyburn Security Bank was inefficient? He seemed to me a very practical man. He has lived in rural districts all his life, and his banking experience seems to have been confined almost altogether with agriculturists. He seemed well informed on Western Canadian interests, and certainly he did not leave upon me the impression that he was inefficient.

Mr. SHAW: Sort of paternal.

The CHAIRMAN: He left a very favourable impression upon me, and I think upon the members of the Committee.

Mr. COOTE: You will remember that nearly every banker who appeared before us told us that they had too many branches.

The CHAIRMAN: That is conceded.

Mr. COOTE: I made a special request that Sir John Aird and Sir Frederick Williams-Taylor be recalled and bring with them a statement of what it costs to run their branches in Western Canada, but the Committee would not accede to that request. I think that if that were done we could show that these branches in Western Canada could be run at a profit even though they charge 7 per cent. I do not think that I am at all conceited, but I feel sure that if I were managing a branch in one of those towns where we did not have useless duplication it would be quite possible to return a profit on the operations of the branch without charging more than 7 per cent interest. I wish it to be understood that I am not advocating that we should do anything that would compel the banks to close their offices in any town in Western Canada, because some people think that there is a certain amount of competition where there is more than one bank. You cannot get away from that feeling. The banks are there, and the people would not like to see them go.

The CHAIRMAN: If they were reduced to one, there would not be that feeling?

Mr. COOTE: Yes. But I am afraid that we are discussing a matter that is a little out of order. If I may take one minute more I would suggest that if there were a local bank in some of the towns in Western Canada, that is, a bank with eight or ten local men on the board, I am quite satisfied that it would take care of the needs of the people in that community with one-fifth of the expense which is now placed on the shoulders of the people in doing their banking business.

The CHAIRMAN: There are of course two sides to that suggestion.

Mr. COOTE: My suggestion for the resuscitation—I do not know whether that is the right word or not—of the farmers in many districts in Western Canada is the establishment of rural credit societies which would not charge more than 6 per cent at the outside.

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Mr. VIEN: Could such a bank be organized with Western funds?

Mr. COOTE: Our present banks could very well finance rural credit societies issuing short term loans.

Mr. VIEN: If you had a local bank out West which could be better managed or which could better provide for the farmers of the West, could such a bank be organized with Western funds?

Mr. COOTE: Well, perhaps not at the present time, but we can discuss that some other day.

The CHAIRMAN: Mr. Carmichael thought that some rural credit system would best suit the needs of the West.

Mr. SPENCER: Suppose that a bank were opened in a town in Western Canada, and the farmers with ample security in that locality between them borrowed \$50,000, would not that \$50,000 of loans create \$50,000 of deposits?

Mr. COOTE: I would rather not answer that question. Perhaps some experts could answer that. We are dealing with the question of interest.

Mr. RANKIN: Were not the farmers in the West responsible to a large extent for the establishment of so many branch banks out there?

Mr. COOTE: It is almost altogether due to the banks themselves. The banks went out there looking for business. They were in very keen competition with each other as to which would get into a town first and as to which would get more business than the other. The banks were just as badly fooled in Western Canada as many of the farmers were. The greater production campaign was also to some extent responsible. That campaign placed many of the Western farmers in debt because the production cost was the highest we ever knew, and the yield per acre was the lowest we ever had. The farmers were not responsible for that. They were urged to put every acre they possibly could into crop. During some of those years, the land was not well prepared, and they simply lost all the money they had spent in trying to raise that crop.

The CHAIRMAN: In the drought section, of course, no banking system or financial system was responsible for that.

Mr. COOTE: If I might quote from Sir Frederick Williams-Taylor's evidence, he said, "We have loans that have been running for one, two, three, four and five years in districts where the crops have been a failure, and where we are still carrying the farmer in the hope that he will finally pull through with a good crop". That is part of the story, the banks carrying the farmer for the old loan, but this year in many cases they have refused to make any more loans. He has advances, possibly, from the rural credit society and the bank is awaiting till he gets a little money, and they have refused in many cases to carry that man for less than 10 per cent.

Mr. VIEN: If I remember rightly, another reason was that the farmers took too heavy loans on farm equipment. If I remember rightly, Professor Swanson said that in the three prairie provinces, the unpaid balances on farm equipment was from fifty million to sixty million dollars.

Mr. COOTE: There is one other point which might as well be mentioned now, that in certain cases automobile agents sold cars to farmers, took their note for it, and the bank discounted the note. I have been told on good authority of cases where a man could not borrow money from the bank for his farming operations, but could borrow money to buy a car. That is a case of bad management, Mr. Chairman.

Mr. VIEN: Could not the western farmer look to a provincial association for assistance in that regard?

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Mr. COOTE: I want to point out that the banks themselves have had control in western Canada. They have made all of these loans with their eyes open, and in many cases they have encouraged these men to borrow. In some cases they sent out circulars to the farmers, advising them that they would be very glad to advance money for certain purposes. The banks are the ones that are responsible, more than anybody else outside of the farmers themselves; they must share with the banks the responsibility, but the Provincial Government was not responsible, it was between the banks and the individual borrower. The banks are just as much responsible as the borrower. They say they have superior knowledge; in many cases they advised their customers to come and consult with them. The customer goes in, consults with them, borrows money on the advice of the banker, and the banker of course fixes the rate of interest. I say the responsibility is on the banks of Canada more than it is on any other body in Canada, but the banks will not admit the responsibility in any case in which I have tried to get them to admit it. I submit to the members of this Committee that the banks should not be allowed to evade the responsibility which rightly rests on their shoulders. They made their loans deliberately.

The CHAIRMAN: Mr. Jelliff, do you wish to make some observations?

Mr. JELLIFF: Mr. Chairman, I hardly feel like prolonging the consideration of this question. I must confess that I have heard so much in this Banking Committee, on different things, that I am almost "bughouse"; I do not know whether it is safe to turn me loose or not, but I do have this feeling, that we out in the western part of the country are up against a condition, and not a theory, and I cannot see that in the long sessions of this Committee we have done a thing as yet towards remedying that situation. It is one of the most serious things that exists in Canada to-day, or ever has existed, from an economic standpoint. I doubt if we have taken all of the elements of the problem into consideration. Take my own province, the Province of Alberta. There we are, the farthest away of any of the grain producing provinces in the Dominion, from our export points. It costs us the most money to market our crops, it costs us the most money for everything that we have to buy to operate our farms. Our machinery, our clothing, every expense that enters into the production of grain or live-stock or any of the other products of the farm are enhanced very much to what it is in the other and especially the more central provinces of the Dominion. We are under that handicap all of the time, and besides that, owing to the misfortunes of the last few years and the deflation in the prices of farm products, there has been an accumulation of debts to the banks, to the loan companies, to the machine companies, to the merchants, to everybody who gives credit at all to the farmer. That has to be removed in some way, and I cannot see, Mr. Chairman, how we are going to remove that load if we abide by the same rule as regards bank interest that we have had in the past. It is the same old rule that is put into the Act for this year. I have been farming there, and I do not speak for myself, but for my neighbours all around me; we have been farming there for twenty years, and we cannot carry that load. We cannot farm under these 8 per cent, 9 per cent, and 10 per cent conditions. It might as well be stated here, fairly and squarely, that we cannot and we will not. There is only one road for us. I am the last man in the world to take a gloomy view of situations; I was born with a sort of happy, go-lucky disposition, and I cannot shake it off. I do not like to take a gloomy view of the situation, but if these high interest rates are going to be imposed upon us for short term loans, that we have endured in the past, I am sorry to say that I fear we will have to move out of the country, and that we do not want to do. Mr. Garland and Mr. Coote and others have spoken of the necessity under which the C.P.R. finds itself to-day, after having given, years ago, what it considered an extremely

liberal form of contract, running for twenty years. It is renewing these contracts for a term of 34 years, with 7 per cent interest, on the amortization plan, the 7 per cent to carry both the principal and the interest payments. We are also introducing another immigration system in this country with a plan for settlement of the newcomers of a very similar nature, and yet our old-comers are in a position where they need some relief, and they cannot get it. Now, I am reminded that there have been two or three attempts in Alberta, instituted by the farmers, to get the bankers and the loan companies together, and see if some plan could not be devised for refunding this great amount of indebtedness that exists there at this time, and put it on a basis where the farmers could gradually work their way out, and they cannot get much encouragement from the bankers along that line.

The CHAIRMAN: May I interrupt you? I think I speak the view of all the members of the Committee when I say that it is important and desirable if some scheme of presently lifting this debt, from the farmers of the West particularly, could be worked out and repayment arranged to cover a long period of years. I think great relief would be afforded if this could in any way be arranged, but I think a mistake has been made in expecting that that could be done through the Bank Act. I am afraid we have made a mistake in this Committee in not getting through this particular business a month ago, and perhaps taking the matter of rural credits from the other committee, and attempting to deal with it, getting the bankers and other interests here, because that scheme cannot be worked without the joint efforts of the banks and others. I can see that any proposed scheme of relief presents difficulties, perhaps insurmountable difficulties, but the matter deserves careful study by competent persons.

Mr. JELLIFF: I have said to different members of this Committee—I know there are a few of them favourable to some plan of meeting our situation in the west—if they would come right out here and say, “Yes, there is a condition that must be met, that cannot be met by our present banking system, and we will back you up with a report from this Committee recommending to Parliament that some system of rural credits be adopted,” I would not have a word to say at the present time. But that not having been done, we are on the revision of the Bank Act as it stands, and with nothing of that kind in sight, and no other relief the only thing I see is to put these amendments through. Even that is of a very limited nature, but at least we could keep this interest rate down to 7 per cent, and let that give such assistance as it will.

The CHAIRMAN: I might say, because it has been said to me, by one or two of the leading bankers of Canada, that they would be very glad to meet in co-operation with other interests for the purpose of considering this particular situation.

Miss MACPHAIL: Since when have they held that view? The Ontario rural credit scheme has only been launched for about two years, and the Bankers' Association endorsed the most scurrilous pamphlet, criticizing the Government for launching the scheme, because they said there was no need of it, and several other things. It must be a very recent conversion.

The CHAIRMAN: It is very unlikely the Bankers' Association said that.

Mr. JELLIFF: I think I remember a statement made by Sir John Aird in his testimony, that he was favourable to something of a rural credit scheme.

Mr. SHAW: Yes, so long as somebody else assumes the responsibility.

Mr. JELLIFF: He had no suggestions to make except this, “We are favourable to having a rural credit scheme, but do not step on our preserves, the savings of the people.” Now, in any rural credit scheme, or any scheme brought forward by the Federal Government, it looks to me as though we have to resort,

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to some extent at least, to the savings of the people. We have given, under one provision of this Bank Act, the right to the banks to take the savings of the people on deposit and pay interest on them. If we were to cut out that provision of the Bank Act, the savings of our people would be free, and they would be available to seek other forms of investment.

The CHAIRMAN: The savings would go into bonds or stocks, here or in the United States or in England, if they did not go into the banks.

Mr. JELLIFF: I have not very much faith, Mr. Chairman, that we shall get a very great deal of encouragement from the banks themselves in forming the rural credit system, from the position that they have taken. You know, Mr. Chairman, as well as any member of this Committee, that over and over again Sir Edmund Walker, Sir John Aird, and the other distinguished bankers that were before us, expressed their opposition to in any way deflecting from their tills the savings of the people. They wanted to keep those, and I do not think there is any other way of getting at that question at all without having resort to those savings. My only idea in rising was simply to insist upon this one point, that the only practical relief in sight, and that will be only of a limited character at most, is to limit this rate of interest strictly to 7 per cent, and I am wholly in favour of the amendments proposed on that subject. I believe it is just as essential in the interests of the banks themselves, because I do not believe that the big pile of farmers' notes and securities that they are holding to-day in their vaults will be liquidated if a higher rate than that is charged. It is going to take most of the lifetime, I am afraid, of the present generation of farmers in the west even to pay these old debts, and I think we are going to enable them to carry on at the present time, to make any substantial payments on these old obligations whatever, we have to fix at least as low an interest rate as 7 per cent. As far as I am personally concerned, I would make it 6 per cent. I do not see how our people meet this situation and hold their farms. That is what I am anxious about. I want to see every farmer stay in my district, and a lot more added to the number. I read in the House of Commons here, early in this session, a letter from a representative from our district who was down in the State of Iowa trying to get farmers to immigrate to our irrigation district which is being divided up into smaller farms, and he gave as one important reason why these people could not be drawn from Iowa, that they could see no advantage in leaving a country where they could get 6 per cent loans, for long terms, on the amortization plan, and come to a country where they were obliged to pay 8 per cent on short term loans.

Mr. VIEN: Does my honourable friend believe that we could venture, in this country, to do a thing that the Federal Reserve Bank in the United States has found itself unable to do, namely, to charge no more than 7 per cent? It has been proven to-day that they charge as high as 10 per cent in some localities and if in a much richer country the Federal Reserve Bank cannot do it, cannot limit itself to 7 per cent, can we in this country do otherwise?

Mr. JELLIFF: I do not know as to the facts in regard to that, Mr. Vien, but I do know that under their system over there they grant these long time loans at 6 per cent, on the amortization plan.

Mr. VIEN: On a rural credit system?

Mr. JELLIFF: Yes. I know that when their farmers, a couple of years ago, when the fall came in the prices of all farm products, the United States resuscitated their old War Finance Board, and in order to save the cotton and the corn and wheat growers, and the stock raisers, and the sugar beet growers, and other branches of agricultural enterprise in that country, they put out \$470,000,000 in long term loans at very low interest rates in order to aid the agriculturists.

Mr. VIEN: But they do not limit their banks to 7 per cent, and this is the question.

Mr. JELLIFF: I think they put most of these loans through the banks, and through the rural societies, and they found the security ample. I want to show you what they think of that kind of thing, and of the possibilities, and the liquidity of these loans that were based on these farm securities of the type I have just mentioned, and upon which assume that our banks could only loan for three months safely. Here is a statement from Mr. Myer, who is the head of the Federal Loan system of the United States. It is contained in a little pamphlet, on the subject of Financing Agriculture. He says:

"We all recognize the desirability of maintaining the liquidity of the assets of the Federal Reserve System. The view seems to prevail in some quarters, however, that paper, in order to be liquid, must have a maturity of sixty or ninety days. That view was largely imported from Europe, and particularly from those portions of Europe which are primarily industrial and commercial rather than agricultural. The fact that the Federal Reserve Act permits the rediscounting of agricultural paper with a maturity of six months, is only a partial recognition of the need for a differentiation between the time limits for agricultural and for commercial paper.

A sharp distinction should be drawn between short time bank paper and the question of the liquidity of the security that underlies bank paper, long or short. For instance, the six and nine months' loan on wheat and cotton, made by the War Finance Corporation to co-operative marketing organizations, are as liquid, from the point of view of security, as 90-day paper representing advances to merchants and manufacturers. Long time paper may be more liquid as to security than short time paper. It may not be as well adapted as an investment for all of a bank's funds, representing deposits payable on demand, but the experience of the War Finance Corporation has demonstrated that, when adequate financing for the time needed is provided, staple agricultural commodities are liquidated in an orderly way and, in fact, the liquid quality of the security is enhanced by a more gradual marketing process."

Then he goes on to say that they have found these loans safe, and just as liquid, if not more so, than the commercial loans. It says that the banks, in their statement that these short term loans are an absolute essential in dealing with the farm situation, are not stating the truth, for something better can be done. Now, I did not intend to get on to that, but I do want to impress upon the Committee this one thing, that there is an obligation upon us in revising this Bank Act, to assist the situation in the west, and the only step that I see that we can take in that direction is by putting a limit on the bank interest, and not allowing the banks to charge more than 7 per cent.

Mr. SHAW: Mr. Chairman, I want to crave the indulgence of the Committee for just a few moments, to make one or two observations in connection with the discussion that has taken place to-day. I think the discussion has been very instructive, to say the least. I was very much interested in what I heard of the remarks of Mr. Stevens. He called to his aid Sir Francis Bacon, and also Adam Smith, both gentlemen for whom every one, I am sure, must have the highest regard. I would like to point out to Mr. Stevens some facts which I am sure he will upon reflection consider as material, that Bacon wrote long before there was any such thing as organized banking, and that Adam Smith wrote his *Wealth of Nations* long before the industrial revolution, and long before the advent of steam had changed our whole industrial fabric. Bacon

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never contemplated the concentration of money power in the hands of a few, as is the fact to-day. Adam Smith never contemplated, and had no knowledge whatsoever of the monopolies and mergers which characterize our system to-day. They spoke of an ideal system, and I have no quarrel with them or Mr. Stevens, but the fact is that they did not realize the conditions that have developed to-day, and certainly could not realize them. To-day, the law of supply and demand is largely set at naught, and competition is largely a forgotten principle. Under these circumstances, I think we should regulate the interest rates.

Now, I referred this morning to the question of the regulation of railroad rates, which is exactly parallel to the regulation of interest rates. Both are public service corporations; both have been endowed with special privileges; both receive their life from the Government; both are concerned in the discharge of great public duties. In addition to that, the bank is the custodian, the trustee of a large portion of public funds belonging not to it, but to the people of this country. Under similar circumstances, we regulate freight rates, and surely there could not be any one within hearing of my voice who would suggest for a moment that railroad rates should not be regulated by a competent body. Every argument which justifies regulation of railroad rates justifies the regulation of an interest rate. Now, the next thing I want to point out is that in this proposed amendment to the Bill as it stands, we are not proposing to regulate interest rates. What we do is to propose a maximum rate, beyond which the banks cannot go. It is, as it were, a controlling rate, a maximum rate. That is the object of this proposed amendment; that, and nothing else. It was suggested by Mr. Stevens in my temporary absence that there was some indication—I do not know on what he based his facts—that the fixation of interest rates in the United States had stifled, in some mysterious way, the business of that country, and I take it that he referred to the fixation of rates under the National Bank Act. May I point out to the members of this Committee that these interest regulations in connection with the American National Banks have been incorporated into the provisions of the statutes creating land banks and into the provisions in connection with the various other banking activities undertaken by the United States Government at this time. These identical regulations that are before the Committee to-day have been incorporated in the most recent legislation of the United States Government. Now, if it stifled business, surely the United States Government must have known something about it, but they are reproducing the same limitations and fixing exactly the same rate of interest and substantially the same penalties for an infraction of similar provisions. It was suggested by Mr. Baxter that if we imposed any limitation, that the many customers of the banks would not be able to get credit, or borrow a sufficient amount, even though they were prepared to pay a greater rate of interest. Now, the people of this country are not concerned with the men who have speculative endeavours; we are not concerned with the man who is prepared to pay speculative rates of interest. We are concerned with the ordinary individual who has a legitimate claim to money accommodation from the banks, and we have no concern with anybody else.

So I say that the limitation which is proposed in the interest rate imposes in the large majority of cases a legitimate and reasonable payment in interest. I do not limit it to the rural sphere, but also as regards other requirements. That is a matter which should receive our consideration. We are not primarily concerned with speculative rates, or with people who can pay speculative rates. I pointed out this morning, and it has not been disputed, that the present section is absolutely ineffective. It is a delusion and a snare; it simply deludes people. The ordinary man reading the section must come to the conclusion

that there is an interest controlling factor, but such is not the case. All I would ask the Committee to do is either to make the provision effective or wipe it off the statute book altogether. Let us not lack courage in this particular matter. Do not camouflage the question by suggesting that the provision limits the bank's rate and let the people slumber on without any knowledge of the interpretation placed on this section by the Privy Council of England. Let us do either one thing or the other; let us wipe out the section as it now stands, or else adopt an effective section which will mean something, and which will be of some value.

Now, I can quite understand the indifference—perhaps I am using too strong a word—of eastern members in regard to this question of interest rates. Perhaps “indifference” is too strong a word to use, but I think perhaps many eastern members reflect to a large extent the apparent indifference of eastern Canada in regard to this matter.

The east has little cause for complaint in the matter of interest rates. I was talking to some eastern farmers who are members of this Committee, and practically all of them told me that they get their accommodation from the banks at 7 per cent or less. I would like you to understand that in Western Canada the farmers get it at not less than 8 per cent, and from that up to 12 per cent, as has been indicated in a number of instances cited before the Committee to-day. As I say, I can quite appreciate the fact that members of the Committee from points in Eastern Canada are indifferent, and I can also appreciate the fact that it is easy to say “Oh, this is a matter to be dealt with under a rural credit scheme.” We have rural credit schemes in some parts of Western Canada. In Manitoba we have such a scheme, and I know that that scheme was contested by the banks at practically every stage in its organization. Not a single banker who has appeared before this Committee has made a solitary suggestion to meet the situation in Western Canada; none of the men who control the vast financial resources of Canada has made a single suggestion in connection with this difficult problem, except that Sir Edmund Walker or Sir John Aird say in effect, “Well, I think it is perhaps a good scheme, but do not come to the bankers, the people who control the finances of Canada.” That was Sir John Aird's advice, and if honourable members think that that is effective advice, all I can say is that they have an entirely different conception of the matter than I have.

MR. VIEN: Does my hon. friend think that for a rural credit scheme we must go to the banks?

MR. SHAW: I think the banks are the primary institutions who should negotiate some policy or plan which would assist in financing the legitimate requirements of Western Canada, for there are people in Western Canada other than the rural people who are suffering by reason of the interest rates which the banks have forced upon them.

One other suggestion before I conclude. We who come from Western Canada are just as good Canadians as those who come from Eastern Canada; in fact, I think sometimes that we are a little better Canadians.

MR. JACOBS: What constitutes a good Canadian?

MR. SHAW: I think you are able to give a better definition of that than anyone I know. I do suggest in all seriousness to the Committee that unfortunately this country is divided by geographical factors. We in the West have geographical limitations and problems to meet, and there is a deep-rooted feeling in Western Canada to-day that we have suffered for quite a long time economic exploitation at the hands of Eastern Canada. In one connection, particularly is that evident, and that is in connection with the bank interest charges. We have other grievances, but I am not going to mention them—I need only mention the tariff—but we do feel that we have suffered a good deal and that we have real

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grievances against Eastern Canada. Now, as a Canadian—and I take my Canadianism from no member of this Committee—I suggest that there exists to-day a serious problem which invites your attention, your sympathy and your careful consideration. You cannot ignore it if you want this country to keep together and to preserve the fabric of Confederation. If you do ignore it, you are inviting trouble. I suggest in all seriousness that this matter should receive more than the casual consideration that other claims from the West have apparently received.

Mr. GOOD: Just before you put the question, Mr. Chairman, I want to recall to the minds of the Members of the Committee a little incident which is to be found in Dickens "Tale of Two Cities," where the chariot or carriage of the lord of the Manor rolled carelessly over a little child, and where the carelessness was dismissed by the occupant of the carriage with a casual and flippant remark. I would like the Committee to consider the consequences of the sort of thing that that incident typifies. Some people are driving the chariot or carriage of special privilege over the children of this country, and I say: Beware the consequences!

The CHAIRMAN: Suggestions have been made to me as to what amendment I should put first. I must use my own discretion, and I shall put Mr. Shaw's amendment first. It is more comprehensive than Mr. Carmichael's and if Mr. Carmichael wishes his amendment to be put afterwards I shall do so.

Mr. SHAW: I would like to have a recorded vote.

The CHAIRMAN: Yes.

On a division Mr. Shaw's amendment was declared lost.

The CHAIRMAN: Now, Mr. Carmichael I shall put your amendment. One of the sections in your amendment is exactly the same as in Mr. Shaw's amendment. Mr. Shaw agrees with me that your amendment as it stands would accomplish something that you did not intend.

Mr. CARMICHAEL: I am of the opinion that a wrong construction or interpretation has been put upon my amendment by both you and Mr. Shaw. It would attain something that is not in the Bank Act. I am of the opinion that it should have been voted on first. However, if Mr. Shaw's amendment had been adopted, it would have been acceptable to me, and so far as I am concerned, in view of the vote which has just taken place, I do not press for another division. If the Committee desires to take a vote on my amendment, that would be acceptable to me also.

The CHAIRMAN: We cannot leave it that way.

Mr. SPENCER: It seems to me that it is a waste of time voting here because it is evident that many Members do not understand conditions in western Canada.

The CHAIRMAN: Shall we take a show of hands?

Mr. CARMICHAEL: A show of hands.

On a show of hands, Mr. Carmichael's amendment was declared lost.

The CHAIRMAN: There is another amendment to this Section by Mr. Coote but that will have to stand over until our next meeting.

The Committee adjourned until Thursday, June 7, until 4 p.m.

DISCUSSIONS

THURSDAY, June 7, 1923.

The Select Standing Committee on Banking and Commerce met at 4 p.m., Mr. Mitchell, presiding.

The ACTING CHAIRMAN: Any motions?

Mr. WOODSWORTH: The following is the motion of which I gave notice yesterday:—

“That section 30 be amended by adding thereto as subsection 4 the following:

“Such officers, clerks and servants shall have and be deemed to have the right of association for all lawful purposes.”

The ACTING CHAIRMAN: We may proceed with section 92. There is no amendment to this section.

Section 92 carried.

On section 93.

The ACTING CHAIRMAN: Mr. Spencer has an amendment to section 93 which reads as follows:—

“That section 93 of Bill 83 be amended by striking out the word ‘fifteen’ in the twelfth line thereof and substituting the word ‘ten’.”

Mr. SPENCER: I have brought forward this amendment in a very mild form, because it has been suggested that I should have proposed cutting out the word “fifteen” entirely. The reason why it is brought forward is that in that part of Canada from which I come we have one or two, sometimes three banks, but rarely three in any small town, competing, and it is a common thing for a man to have to cash a cheque drawn on another bank at one of those branch banks, and in that way they are up against a difficulty that the people in the cities or large towns do not meet with. I know that this charge is very often cancelled in the case of certain individuals and corporations; but my idea is that we should have some rule to go by, and although the charge does not seem very large, it does mean a good deal to those people who are cashing small cheques of five, ten or fifteen dollars.

Hon. Mr. FIELDING: If there is to be a charge at all, fifteen cents does not seem excessive.

Mr. HANSON: Make it fifteen or nothing.

Mr. SPENCER: I am quite willing to make it nothing. In England where I had a good deal of connection with banks, they never thought of charging anything in discounting cheques of their own branches and for those on branches of other banks, the charge was very small. There has been a great deal of comment on this charge in the West. It does not mean much to the banks, but it does mean a lot to the individuals cashing small cheques.

Amendment declared lost.

The ACTING CHAIRMAN: There is another amendment to section 93 by Mr. Coote. It reads as follows:—

“That section 93 be amended by striking out the words ‘one-eighth’ in the tenth line thereof and substituting the words ‘one-sixteenth’.”

Mr. COOTE: I think that in very many cases the rate which is allowed here is excessive. Of course, after the vote which has just been taken, I cannot object to it on small sums, but on large amounts it seems to me that the charge of one-eighth is excessive. Very often, at the present time, a man living say at High River forty miles from Calgary will receive a cheque for a car of grain,

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possibly \$2,000 for a large car, and he will be charged this one-eighth per cent. It is a very easy matter for the bank in High River to credit that man with the proceeds of the cheque and forward the amount to High River. Frankly speaking, it costs a bank no more to cash a large cheque than it does to cash a cheque for \$5. It seems that the charge of one-eighth is excessive, and there is no way for a man to evade it unless of course, he wishes to carry the money about. I think I am safe in saying that there is a combination or agreement between the banks to stick to certain charges which are allowed under this Act, so that so far as this charge is concerned, the rate is practically set by this Act.

The ACTING CHAIRMAN: This rate has been fixed for about thirty years.

Mr. COOTE: I am glad that you have used that argument; it has come to be a stock argument. I was wondering whether any other argument could be used to justify this charge. I do not suppose you would suggest that the banks should go to the expense of forwarding the currency to High River when they take this cheque and place it to the man's account. If there is anything to justify it in the case of large cheques, I would like to hear it.

Mr. SHAW: I would like to hear some explanation from the banks as to why this amount is so large.

The ACTING CHAIRMAN: Have you any explanation to make, Mr. Ross?

Mr. ROSS: The charge is one-eighth for transferring funds. It is a real cost to the bank. With all respect to the gentleman who has spoken, a bank cannot pay out money continuously at one point; it has got to make a transference back and forth with the risk involved in transportation. The express companies make quite a substantial charge for transferring currency. There is a constant process of transference going on, and it is necessary for the banks to make a charge to cover the expenses.

Discussion followed.

Amendment declared lost.

On section 94, Mr. Spencer proposed an amendment, as follows:—

“That section 94 of Bill 83 be amended by striking out the words ‘twenty-five’ in the ninth line thereof, and substituting the word ‘ten’.”

Mr. SPENCER: Mr. Chairman, the same argument applies to this clause as to the former one. I assure you that the amendment is needed in the country, where the people suffer from this high charge, and I appeal for the best consideration of the Committee.

Amendment declared lost.

On section 94, Mr. Coote proposed an amendment as follows:—

“That section 94 be amended by striking out the words ‘one-quarter’ in the seventh line thereof, and substituting the words ‘one-eighth’.”

Mr. COOTE: Mr. Chairman, the principle involved is very much the same as in the amendment to section 93. I want to say right here, particularly for the benefit of those who yesterday referred so often to what is being done in the United States in the way of interest charges, that in the United States you can take a New York draft to almost any bank and have it cashed at par; there will be no charge made whatever. In this country, you may take a cheque on a bank ten miles from you, and be charged one-quarter of one per cent. I do not object, very much, to one-quarter of one per cent on a small cheque, but I do object, I think with very good reason, to one-quarter of one per cent being charged on large amounts. Where there are only one or two banks in a town, as a rule these banks combine to maintain this rate of exchange.

Regardless of what Mr. Ryckman has said, I know that for a fact; in fact, I have seen it done. Now, there is no use in deluding ourselves. When I opened up the branch of which I had charge in one town in Western Canada, the manager of the other bank came over and advised me it was no use my starting in to cut the rate of exchange on cheques, and he assured me that if I did, he would cut it lower than I did, and we had better leave it alone. I told him I would do just as I pleased. I submit, Mr. Chairman, that this is largely a matter of bookkeeping. If the banks in these small towns were content to pay out the notes of other banks, very little money need be forwarded by express from the large offices to the smaller ones, but because the banks themselves want to pay out their own notes, they return to the large branches all the notes of the other banks. The teller spends a lot of his time in doing that, and the bank spends a certain amount of money either in sending these notes by registered mail, or by express, but they do that to suit themselves. I think this charge is excessive. Possibly my amendment is not worded to meet the wishes of the Committee. I am sorry it was not worded differently so that they would be limited to one-eighth of one per cent in the case of large cheques, stating some amount, but I think as a matter of principle it is correct.

Amendment declared lost.

On section 91, Mr. Coote moved the following amendments:—

"That section 91, subsection 1, be amended by striking out the words 'or discount' in the second line thereof and by striking out the word 'may' in the third line and substituting therefor the words 'shall not'."

"That section 91 be amended by adding the following subsection thereto. 4—No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer."

"That section 91, subsection 1, be amended by adding thereto the words 'the rate of interest charged by the bank shall appear on the face of the note'."

Mr. COOTE: The idea of the amendment is to limit banks to the privilege of taking interest, but to prohibit them from discounting.

The CHAIRMAN: Does it not come to this, that instead of taking the interest out at the time they discount the note, they have to collect the interest when the note comes due?

Mr. COOTE: That is it. This point is covered pretty thoroughly in Professor McGibbon's report. I might read you just a little bit from this report. There is one page, I think, refers to it. He says:

"The practice of discounting notes rather than of charging a straight rate of interest was objected to at a great many points in the province. The objection was chiefly on the ground that the interest was thereby deducted before it had accrued. The investigation confirms the evidence of the general secretary for the province of the United Farmers, Mr. H. Higginbotham:

"... The other point in which there is considerable complaint in regard to the interest is the practice which the banks have of deducting the interest in advance from the loan. Many people contend that that is morally indefensible to deduct interest on borrowed money before the man, before the loan has been granted. People write in to the central office of the United Farmers of Alberta and ask what they shall do in that event. All we can advise them is if that is the bank's policy, if the bank insists upon that, they will probably have to let it be arranged that way in order to get the

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money but at the same time our organization feels that it is bad practice on behalf of the bank. It creates a bad impression in the mind of the man who goes there and asks for a loan when he does not receive his loan in full and is required to pay interest on his loan in full. Lots of our people who complain about that feel that it is morally indefensible’.”

I do not want to read any of this which might not be of interest, but possibly I might read one or two paragraphs:—

“The contention of the bankers in brief was that discounting had always been recognized as a fair banking practice, in fact that discounting was as old as banking itself. If the farmers did not care to do business with the banks on that basis, they were under no compulsion to do so.

“The defence does not strike me as very strong. It is all very well to say that the farmers are ‘not forced to go to a bank and borrow money’ but the chartered banks occupy the short term credit field. They do that by virtue of the privileges they enjoy under the Bank Act. In point of fact, the farmers are forced to go to the bank and borrow money. The fact that the banks are able to take advantage of their necessities may be pleaded, but I doubt if its advocacy strengthens the position of the banks.”

“If granting a loan with a straight interest rate is more convenient to the client and the only reasons for not doing so are those referred to above. I do not see why the desires of the client should not be respected. Moreover, there is evidence to prove that in the past farmers have been granted loans on notes bearing straight interest.”

That is, some of the banks will still give a man a loan, but not drawing straight interest. Several instances in which that was done are quoted. Then he goes on to prove—I think Mr. Shaw quoted from this yesterday—that the banks at a meeting at Winnipeg decided to enforce this practice, and that it has been adhered to pretty generally since that time, though there are still some exceptions. There are a few bank managers who seem to feel that it is not a good practice, and the small additions which the banks gain from it are not sufficient to justify the practice. It does seem unfair, as we generally understand the practice of loaning money. We are supposed to pay for the use of this money when we return it, but the banks say: We want to be sure of this interest, and we will take it now. It amounts to this, that a man must renew his note for three months, and that he is paying an additional rate of interest. I have not figured out what that addition would be.

Hon. Mr. STEVENS: It means 4 cents on \$100 in three months.

Mr. COOTE: If a man wants to borrow \$500, the bank in many cases tells him you can have \$490, but not \$500. I am simply trying in this amendment to meet the wishes of the people who think that the banks should be confined to taking interest rather than discount.

Mr. BAXTER: I would like to point out that it is not going to meet the difficulty. The decision referred to yesterday by Mr. Shaw, the decision by the Privy Council may be—I suppose we must say it is—good law, but it is a decision which I do not think meets with the approbation of the man of ordinary intelligence who reads the Section. I am quite satisfied—though I may be wrong—that when Section 91 was passed in its present form, its intention was to limit interest or discount to 7 per cent; yet it does not and why? Because the Privy Council has said that where a man voluntarily paid more he could not get it back. My hon. friend will notice that in the amendment he is proposing there is not a

single word, any more than there is in the present Section to prevent a bank from getting more by voluntary agreement; and if we are to amend this at all, if it is worth trying to do this thing, we had better employ apt language to meet the decision of the Privy Council and get something that will be really effective. What my honourable friend is proposing will not be effective, because the very same principle which was laid down by the Privy Council will be applied to this language. I must confess that I have considerable difficulty with regard to this Section 91, and I would just throw out the suggestion as to whether it would not be better to make it 8 per cent, and in the third line, after the words "per annum." insert the words "whether by voluntary payment or otherwise." If we did that the effect would be in those parts of the country where the banks are getting 10 per cent, they would not get credit at all, and the men who want this provision might consider very carefully whether they would not be doing more injury than good.

Mr. GARLAND: They would be better without it.

Mr. BAXTER: Eight per cent, though high, is not an abnormal percentage for some parts of the country, and from the testimony we have heard, it looks as if we could not get along without contemplating an 8 per cent rate under certain circumstances. I would suggest this for consideration by all parties. I am not moving it now, but I may do so later. I would suggest that the clause read:

"The bank may stipulate for, take, reserve or exact any rate of interest or discount not exceeding 8 per cent per annum, whether by voluntary payment or otherwise."

The CHAIRMAN: That will come up when we come to consider the section.

Mr. BAXTER: Cutting out the word "discount" will not accomplish what they have in mind, in my opinion. I would ask the Committee to consider whether it would not be well to have an amendment such as I have suggested with the view of taking it up at a later date.

Mr. WOODSWORTH: Have you any penalty clause, or anything of that kind, for making it effective?

Mr. BAXTER: No, and I will tell you why. As a rule I do not believe in penalties. I believe it is far better to rely on the ordinary course of the common law. The Privy Council has said that when a man has had too much interest taken from him, if he has agreed to pay it voluntarily, he cannot get it back. You cannot get a yard measure that is going to be responsive to everything. For instance, take the case of a note on which perhaps the whole charge is small, the penalties proposed in the amendment would not be fair. On the other hand, they would not amount to much in a transaction where a man is incapable of enforcing the remedy. The accounts can be opened up and you can have a square deal through the agency of the courts.

Mr. SPENCER: Referring to what Mr. Baxter has said, it appears to me that if we do not put a penalty on this clause, and the banks continue to charge more than the rate stated, we might just as well take the clause out altogether. At the present time, the public know that there is a 7 per cent provision there, and they also know that the banks are breaking the law.

The CHAIRMAN: I think that will come up when we come to consider the section. What we are discussing for the moment is whether we should strike out the word "discount".

Mr. SPENCER: I support Mr. Coote's amendment for the reason that I have had brought to my notice many times the case of school districts. These school districts make their plans for the coming year; they want \$1,000 to enable them to carry out their plans, and school districts watch things pretty

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closely. They expect to get that \$1,000, and if they only get \$920, when the interest is deducted, they are \$80 out. Then they have either got to squeeze their plans and do without \$80, or hunt up the \$80. It is that sort of thing that is creating a good deal of irritation.

The CHAIRMAN: I have been in that box myself.

Mr. SPENCER: It reminds me a good deal of the position the west was in fifteen or twenty years ago in regard to the grain business. That was almost a parallel case. The farmer though producing a great quantity of grain was denied the right of procuring cars. The elevators were entirely controlled by line companies; there were no loading platforms, and the farmer was in the hands of the elevator company. Ultimately, a clause was put in the Grain Act which enabled the farmer to get his car in turn with the elevator, with the result that to-day the farmer who has a little initiative is independent of the elevator companies. He is exactly in the same position in regard to the Bank Act as he was in regard to the elevator companies some fifteen or twenty years ago. He has only one kind of financial house to go to. It was not so bad when he had thirty-four banks to choose from; but to-day he has only seventeen. It is not true to say that the bank and the customer are free agents, because very often the customer is not a free agent—

Mr. GOOD: Is Mr. Baxter in favour of eliminating this practice of discounting if the wording could be made effective?

Mr. BAXTER: No, I think it would be a detriment to business, and would not really benefit the customer.

Mr. SPENCER: If a man, no matter how good he may be, does not accept the ruling of a bank, even if it is a violation of the Bank Act, he has only sixteen other banks to go to, and he can easily be black-balled by the whole banking fraternity. It is for that reason that I support Mr. Coote's amendment.

Mr. GARLAND: In the first place, this practice is not invariable. I have had some representations in regard to this matter, and my correspondents tell me that if they put up a strong enough fight to the bank manager at the time they are taking out a loan, he sometimes gives in and does not exact the discount. Apparently the practice is to exact it if the man is willing to submit to it; if he is not, they don't. A great many farmers do not care to fight with the banks; they rather go to them in the spirit of cap-in-hand. I wish they would show a little less of that spirit, but they do that, an advantage is taken by the banks of that timidity. Frankly, I do not think there is any parallel between the discounting of commercial paper, and the discounting of farm loans at the time of issue, and that is why I am supporting this amendment of Mr. Coote. I support it only as applying to farm loans. The principle of discounting in that connection is wrong. After all, the interest we pay is supposed to be for services rendered, and in what other line of business are you expected to pay for services before the services are rendered?

Mr. VIEN: Will my hon. friend say that interest is only for the service given? The principles upon which interest is based are totally different. Interest is charged not only for the services, but for the loss or risk incurred and for many other reasons.

Mr. GARLAND: We will grant you all these things, but in the final analysis, it is based on the one principle, and that is services given. It is for the use of the money you borrow. If you had a man to do work for you, you do not discount his service before he has actually rendered it. In business, you do not pay a man before you get the goods, and you do not pay interest on the goods before they are delivered. Such a practice would be absurd. I think it would

be in the interest of the banks themselves in Western Canada to eliminate this practice. It is not doing them any good, and it is simply irritating the people. As Mr. Stevens pointed out, the gain to the bank is very small.

Mr. COOTE: Might I ask Mr. Ross to explain why the banks insist on discounting and then charge an interest?

Mr. ROSS: I think I can give the very highest precedent for the practice of discounting. The British Treasury when issuing its treasury bills sells them and takes the discount; they do not add interest to them. That is the practice of banking the world over. The British treasury discounts their bills.

Mr. GARLAND: I wish to submit that that reply is not a reply at all; it is an explanation of a precedent. I would like to know just why it is done. There must be some real reason for it, and I would like to have that reason.

Mr. SHAW: Suppose that I walk into a bank and want to borrow \$100 for three months. The bank hands me \$90, and I cannot get the \$100 that I require.

The CHAIRMAN: You pay the interest on your discount instead of afterwards.

Hon. Mr. STEVENS: Does it not amount to this, that you have an instrument which you sell. What Mr. Garland and Mr. Coote speak of is the small ordinary personal note, and I think that for the moment you ought to set that aside when you are considering the question of discount for it represents only a modicum of the total negotiable paper. You sell the paper for what it is worth, at its face value, less a certain charge to carry it to the maturing date. That is what we may call ordinary commercial paper.

Mr. SHAW: I can see the point as regards commercial paper, but I gave the Committee a case where I wanted to borrow \$100 for three months.

Hon. Mr. STEVENS: Lay aside the personal note for a moment, and look at this clause as it is applicable to the general world of commerce; that is, the question of buying negotiable paper. What Mr. Garland speaks of is the growing practice of banks on the prairies to demand from the person borrowing the discount instead of adding interest to the note. It is one of those little irritating things which the people out west think is wrong. The effect of it is very small. Many of those loans are for \$100 for three months, so that they would be out 4 cents. On \$500 for three months they would be out 20 cents. No man is going to kick about that, but he feels he has a grievance. It may not be real, but it is in his mind. Rather than throw out the whole system of discount which is applicable to the business world, I think the remedy for the condition referred to by Mr. Coote would be representations to the banks that for the sake of harmony the practice should cease in regard to personal business. Frankly, I cannot see the reasonableness of disturbing the whole field of commercial business, about which there is no complaint, in order to meet a personal grievance which, after all, must be and is slight.

Mr. COOTE: To show you to what extent this practice has grown, I would like to ask the members of this Committee whether they think it right for a man to give a mortgage possibly for a period of three years, and for the man who advances the money to say to him, "I will give you a mortgage of \$1,000 for three years, but I want the interest in advance." I think the members will agree that that would be unreasonable, but that is the practice that has grown up. There are some companies who when financing a mortgage take up the first year's interest when they give the man his money. In these circumstances, we cannot wonder that the people are objecting. I do not want to interfere with the discounting of commercial paper and I conceded that when I approached the Law Branch for an amendment to cover my point. The matter of discounting a

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\$100 note is very small, and I would not have brought it before the Committee if the same practice was not being carried on in the cases of men who borrow \$1,000 or \$2,000. In such cases they think it is worth while to object. According to the evidence collected by Professor McGibbon, the practice seems to have been adopted after a consultation among the bankers, or rather at a meeting of the Winnipeg section of the Canadian Bankers Association, and it does seem to me that the banks in those particular cases are taking a little bit of advantage of their customers. I cannot see why they should insist upon doing it. If they agree to loan a man \$500, why do they not do it? Why not give him his \$500? I admit that he can get \$500, but if he does, his note must be drawn for \$512 or \$514, according to what the interest amounts to. I repeat that I do not wish to interfere in any way with the discounting of commercial paper.

The CHAIRMAN: I think it would, if that amendment were adopted.

Mr. COOTE: I would like to have an expression of opinion on the principle. If this would interfere with the practice of discounting commercial paper, I realize that it would be impossible to pass it; but if the principle were approved it could be easily worded in the form of a subsection of the Act which would meet the requirements.

Mr. SHAW: In drafting the amendment which I moved yesterday on this Section of the Act, I tried to ascertain the reason for discounting so far as personal notes are concerned. There is no doubt that in western Canada—I think the evidence clearly establishes the fact,—that is the practice in the case of ordinary loans. I have no objection to discounting in commercial advances, but so far as personal loans are concerned, I know it worries me. I want to get a definite amount whatever I require, but when I go to the bank I find I have to pay discount, and consequently I cannot get what I require. I had hoped that some one would give an explanation of why that should be done, or point out the dividing line between the personal note and the commercial loan. It seems to me that the banks might well take into consideration a scheme of differentiating between these two notes, because the practice of discounting personal notes is one that has called forth severe criticism.

Some Hon. MEMBERS: Question.

Mr. GARLAND: I would like to ask Mr. Ross briefly to give the reasons for this practice.

Mr. ROSS: I think Mr. Stevens has admirably stated the reasons. I cannot add to anything that he has said. If that is not satisfactory to the hon. gentleman, I do not think I could satisfy him.

The CHAIRMAN: Gentlemen, we will take a vote on the principle of the thing, as to whether we should cut out discount, if that is satisfactory to the Committee under section 91, without tying ourselves down to the exact wording of the amendment.

Amendment declared lost.

On section 91, Mr. Coote moved the following amendment:—

“That section 91 be amended by adding the following subsection thereto. 4.—No bank shall directly or indirectly charge or receive any sum whatsoever for the keeping of any account unless such charge is made by express agreement between the bank and the customer.”

Mr. GARLAND: Mr. Chairman, this is in Mr. Coote's name, but he put it in at my request. When I came in a little time ago, I took the matter up verbally, without having the papers in front of me. I have here two blue slips of the Standard Bank of Canada as evidence of this thing. They have stamped

on them "Debit B. F. Austin"—the customer of the bank—"Service charge for April, 50 cents," and the next, "Service charge for February, 60 cents." These are small, picayune sums, but they created enough dissatisfaction in the mind of the man to make an attempt to ascertain the reason for them. He wrote me a letter, in which he says:—

"This is the third charge of this kind that I have had personally in the last year. They do not appear to be regular, but now and then when business is a little slow, I suppose.

"I have heard a great many kicks over this charge among my farmer friends.

"The first charge I received, I made inquiries of the accountant regarding it, and received the information that it was rent, storage rent, for my checks. Yesterday I made further inquiries of a new accountant, and was informed that my account was below \$300, and therefore this charge was necessary."

I have here a letter from a member of the Alberta Legislative Assembly, Mr. Buckley, in which he calls my attention to this practice. He says:—

"A new discovery here in the Royal Bank Branch; the inspector ordered them to charge their customers 50 cents per month for keeping their account, unless their account was \$200 to their credit, and they did not issue more than six cheques per month, again discriminating against the poor man. Although they did that with me early in the year, I have \$1,000 in my account this past month, and never received any consideration for it, and sometimes sell anywhere from 5,000 to 8,000 bushels of wheat and other commodities, and also pay them interest on \$2,000 or \$3,000. It looks to me real hoggish. I am only mentioning this in case it might illustrate some point."

Mr. COOTE: You will notice this does not prohibit the charge, but simply says they shall not make any charge unless by express agreement between the bank and the customer would have notice, and if he did not like it, he could close up his account.

Amendment declared carried.

On section 91, Mr. Coote moved the following amendment:—

"That section 91, subsection 1, be amended by adding thereto the words 'the rate of interest charged by the bank shall appear on the face of the note'."

Mr. COOTE: I do not think it is really necessary to say much in regard to this. I would simply like the borrower to know what rate of interest the bank is charging him. At the present time, he does not know. Very many of the men who are borrowing this money cannot figure out the rate of interest which they have been charged. I might say that I was asked to put this in by a friend of mine who had been charged a rate of interest higher than he understood he was to pay, and he did not discover it for some time. I can see no valid objection to it; the banks surely have no right to object to the customer knowing what rate of interest they are charging him, and if there are any objections to it, I would certainly like to hear them, to hear what reasons could be advanced for refusing to put this amendment in the Act.

Mr. SHAW: I would like to suggest that the amendment be altered to read:—

"That the rate of interest or discount charged by the bank shall appear on the face of the note."

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I do not see the slightest objection to putting that on the face of the note; I do not see how it is going to interfere with the Bills of Exchange Act in any particular.

Mr. COOTE: If I have the consent of the Committee, I would move that the words "or discount" be inserted after the word "interest" in the second line, to meet any objection which might arise.

Motion declared carried.

Amendment declared carried.

On section 114, Hon. Mr. Fielding moved an amendment to subsection 7, as follows:—

"That subsection 7 of section 114 of Bill No. 83 be amended by striking thereout the first four lines and substituting therefor the following:

'The notice called for by the next preceding subsection is required to be given twice, namely, during the month of January next after the end of the first two year period, and also during the month of January next after the end of the first five year period in respect of which . . . '

Amendment declared carried.

On section 122, Hon. Mr. Fielding moved the following amendment:—

"That section 122 of Bill No. 83 be struck out, and the following substituted therefor:—

'122. The curator or liquidator shall make all the terms and reports, and shall give all information to the Minister, touching the affairs of the bank, that the Minister requires of him.'

Amendment declared carried.

The Committee adjourned until 11 o'clock, a.m., Friday, June 8, 1923.

DISCUSSIONS

Friday, June 8, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Any motions?

Mr. COOTE: I beg to give notice of motion that the chartered banks of Canada be requested to furnish this Committee with a statement of the amount of their past due loans in each province, also the amount of their losses in each province during the past two years.

On Section 113 of Bill 83.

The CHAIRMAN: Mr. Fielding moves that all the words after the word "signed" in the tenth line of subsection 1 be struck out.

Hon. Mr. FIELDING: That is done on the advice of the Justice Department who think the words are superfluous.

Mr. GOOD: I think we ought to have some explanation as to why it is now proposed to cut out this part of the clause. I am not opposing the motion.

Hon. Mr. FIELDING: The Justice Department in reviewing the Bill advised us that these words were superfluous, and they are being struck out on their advice.

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The CHAIRMAN: If you read these lines carefully, Mr. Good, I think you will see that they are meaningless, and would be very hard for a court to interpret.

Subsection 1 as amended carried.

Subsection 2 carried without discussion.

Subsection 3 carried without discussion.

On subsection 4.

The CHAIRMAN: Mr. Fielding moves that the balance of the clause after the word "return" in the ninth line be struck out.

Hon. Mr. FIELDING: It is unnecessary; it is already covered by the preceding words; so we are advised.

Mr. GOOD: What is the objection to putting the latter part of the clause in?

Hon. Mr. FIELDING: I am advised that it does not add anything to the clause, but if anybody attaches any importance to it, let it stay in. My information is that it is superfluous.

Mr. SPENCER: This clause is entirely new. May I ask why it was put in?

Hon. Mr. FIELDING: I will ask Mr. Edwards to explain.

Mr. EDWARDS: Subsection 4 was introduced to provide for this contingency: It was shown in the Merchants Bank case that it was not obligatory under the Act as it stood for a bank to ascertain its true position except at the end of its own fiscal year; that it might carry on for a whole year without going into the losses and other things affecting its position occurring during the year. This provides that whenever matters come to their knowledge they shall be made known in the return.

Clause as amended declared carried.

On subsection 5:

Hon. Mr. Fielding moved an amendment to subsection (a) as follows:—

"5. (a) The borrower has not for a period of two years preceding the date of such return, statement or balance sheet, paid the interest therein at the rate agreed, in cash, unassisted by the bank;"

Hon. Mr. FIELDING: The contention was that a really good account might be in arrears for more than twelve months, and it was unfair to treat it as a bad account. I propose to make it two years.

Amendment declared carried.

Subsection (b) carried without discussion.

Subsection (c) carried without discussion.

Subsection (d) carried without discussion.

Hon. Mr. Fielding proposed an amendment to subsection 5 as follows:—

"That subsection 5 of Section 113 of Bill No. 83 be amended by adding after paragraph (e) the following:—

Provided, however, that any loan falling within this subsection may be included amongst current loans if the directors declare that after due inquiry they have approved such loan as a current loan."

Amendment declared carried.

On subsection 6, Mr. Fielding moved an amendment as follows:—

"By striking out subsection 6 and substituting therefor the following:—

6. Whenever a bank carries on any part of its operations in the name of a corporation controlled by such bank, then such bank shall, for

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the purposes of any return required under the last preceding section, transmit or deliver therewith, a separate return, showing the assets and liabilities of each such corporation, and the interests of the bank in such corporations shall be shown separately in any return respecting the affairs of the bank."

Mr. GOOD: Perhaps Mr. Edwards could give us some information as to what kind of company, besides a holding company for real estate, may be operated in this way.

Mr. EDWARDS: The Merchants Bank had three such companies, one was the Merchants Realty Corporation, which held the title to the banks' premises. Another one was the Bankers Trust Company, of which the Merchants Bank held the entire share capital, and the third was the Land Securities Corporation, which apparently, as far as I could see, was intended to take care of odd parcels of real estate that had come into the bank's hands by way of security and which, under the Bank Act, would have to be disposed of within a certain time, but not being able to dispose of them within that certain time, it was found necessary to transfer them to a separate corporation for the purpose of working them out. Sometimes, quite frequently and wisely, there was no bad business about it excepting that it was impossible without the aid of such a corporation to overcome the provisions of the Bank Act which required that such properties should be sold within so many years.

Hon. Mr. FIELDING: The clause as drafted is consolidating the affairs of these controlled companies with the affairs of the bank in one return. In this amendment, we require the bank to make a return of that, but that shall be a separate return, apart from the ordinary return of the bank.

Amendment declared carried.

On Section 113, subsection 7.

The CHAIRMAN: What does that mean, Mr. Edwards?

Mr. EDWARDS: Usually, bank premises have been written down by the consent of the shareholders at annual meetings out of declared profits. That is to say, the profits have been declared and the shareholders have been asked to approve the writing of so much of these profits off the bank premises. This is to provide that the writing off so made cannot be brought back into the account again, unless the shareholders themselves consent to do so.

Discussion followed.

Clause declared carried.

On Section 153:

Hon. Mr. Fielding moved that Section 153 be struck out, and the following substituted therefor:—

"153. Every president, vice-president, director, auditor, general manager or other officer of the bank or trustee who knowingly prepares, signs, approves or concurs in any account, statement, return, report or document respecting the affairs of the bank containing any false or deceptive statement, or any return which does not set forth the true financial position of the bank, including all the information required by Section 113 of this Act, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case by law prescribed therefor, by imprisonment for a term not exceeding five years.

"2. Every president, vice-president, director, auditor, general manager or other officer of the bank or trustee who negligently prepares, signs,

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approves or concurs in any account, statement, return, report or document respecting the affairs of the bank containing any false or deceptive statement or any return which does not set forth the true financial position of the bank including all the information required by Section 113 of this Act, shall be guilty of an indictable offence punishable, unless a greater punishment is in any case by law prescribed therefor, by imprisonment for a term not exceeding three years."

Hon. Mr. FIELDING: This is on the advice of the Department of Justice.

Mr. EDWARDS: The objection to Subsection 3 of Section 153, as drawn, appeared to be pretty well founded, and the Deputy Minister of Justice decided something ought to be done about it. It was defective also in this regard, that it did not provide for negligently approving or concurring in a statement, referred to in subsection 3. Now, the whole matter is taken up in the Minister's amendment, which provides for both the statements under Section 54, and the statements under Section 112, everything is brought in there and co-ordinated, and the Deputy Minister of Justice has carefully examined the Sections, and believes it is a complete tie-up of the other sections, with the penalty clause.

Discussion followed.

The CHAIRMAN: Gentlemen, the evidence taken the day before yesterday, on the question of interest, may be regarded as important by some members of the Committee; in fact, several have spoken to me. However, unless it is the desire of the Committee, the remarks will not be extended. If it is the desire of the Committee to have it done, then it will be carried out.

Mr. VIEN: I think, Mr. Chairman, the discussion on the question of interest the day before yesterday was a most interesting and instructive one, and I think we should follow the rule that we have followed up to now, and that the discussion should be printed.

Mr. HANSON: That has not been done, as a rule.

Mr. SPENCER: That was a particularly interesting discussion, and I would like very much to see it printed.

Mr. VIEN: I would move that a discussion on the question of interest be printed.

Motion declared carried.

The Committee adjourned until 11 o'clock a.m., Monday, June 11, 1923.

DISCUSSIONS

MONDAY, June 11, 1923.

The Select Standing Committee on Banking and Commerce met at 11 o'clock, a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Gentlemen, please come to order. You might look at section 96, subsection 4, page 50 of the Bill. We passed that clause subject to its constitutionality being approved by the Justice Department. It was first referred to a sub-committee of legal gentlemen, members of this Committee. I wrote Mr. Newcombe as suggested by the Committee, asking if this clause was within our powers; "An attaching or garnishee order shall only affect and bind moneys to the credit of the debtor at the branch, agency or office of the bank where such order or notice thereof is served." Mr. Newcombe writes me—I am

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sorry I have not a copy of my letter with me—"In reply to your letter of the 1st instant, I do not see any reason to doubt that Parliament has authority under its banking powers to enact the proposed clause respecting the garnishment of debt payable by the bank."

Mr. COOTE: Mr. Newcombe refers to the subsection as it is printed?

The CHAIRMAN: Yes; we have approved it subject to that.

Mr. GOOD: Was there an amendment to that about inserting the word "summons"? It seems to me there was one there.

The CHAIRMAN: I think he withdrew it.

Mr. ROSS: There is an amendment with the word "summons" in the garnishee order to meet the case of some of the banks. After the word "order" in the first line it should read "garnishee order or summons" and the words "or summons" after the word "thereof" in the last line.

Mr. GOOD: Mr. Chairman, did you submit the clause as originally printed or the one with the amendment; that is, with the word "summons" inserted?

The CHAIRMAN: No, just as originally printed. The word "summons" would not change it at all.

A number of clauses and amendments were carried without discussion.

Discussion on Mr. Irvine's resolution followed.

The Committee adjourned until Tuesday, June 12th, at 11 o'clock, a.m.

DISCUSSIONS

TUESDAY, June 12, 1923.

The Select Standing Committee on Banking and Commerce met at 11 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: On section 153, Hon. Mr. Fielding moves that these three subsections be stricken out and two new subsections be substituted therefor. These amendments were prepared by the Deputy Minister of Justice as was stated by Hon. Mr. Fielding yesterday. Mr. Edwards concurs in the amendments.

Discussion followed.

Amendments carried.

The CHAIRMAN: Mr. Casgrain's amendment is dropped.

On Section 89—Section 3:

The CHAIRMAN: Mr. Marler moves an amendment to clause (c), that Clause (c) be amended by inserting after the word "owner" in the second line, the words, "except in the case of threshed grain."

Mr. MARLER: The reason for the suggested amendment is that it seems perfectly futile to advertise this threshed grain, when the value of threshed grain is known practically hour by hour, or from day to day. In addition to that I am informed that in many cases the consent of the owner, when threshed grain is pledged or hypothecated, is already taken in the pledge, but where that consent is not taken the bank can sell threshed grain, because its value has been determined, without going through the publication of notice.

Discussion followed.

Amendment declared lost.

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The Committee then took up consideration of Schedule G.

On liabilities—6 deposits by the public, payable after notice or on a fixed day, in Canada.

Mr. SPENCER: In regard to Post Office Savings Accounts, where is the money placed? Is it placed to the Government's account, wherever they keep their account, or is it deposited amongst the various banks in equal proportion?

Hon Mr. FIELDING: All payments to the credit of the Government are made to the various local banks and then are consolidated in the account at Ottawa.

Mr. GOOD: Does it come into the general revenue of the Dominion?

Hon. Mr. FIELDING: Yes, subject to adjustment.

16. Appropriation Account—17. Contingent Reserves, including undistributed profits.

The CHAIRMAN: Hon. Mr. Fielding moves to strike out subsections 16 and 17.

Mr. WOODSWORTH: If these items were eliminated, under what items would these amounts be placed?

Mr. EDWARDS: The appropriation account consists of three things—first, the amount set aside for losses against current loans and discounts in Canada; secondly, losses against current loans and discounts elsewhere than in Canada, and thirdly, against noncurrent loans.

Discussion followed.

Mr. Fielding's amendment declared carried.

The CHAIRMAN: Then clause 18 will become 16, and clause 19 will become 17.

The Committee adjourned till 4 o'clock p.m.

AFTERNOON SITTING

TUESDAY, JUNE 12, 1923.

The Select Standing Committee on Banking and Commerce resumed at 4 o'clock p.m., Hon. A. K. Maclean, the Chairman, presiding.

The Committee resumed consideration of Schedule G and passed a number of items without discussion.

The CHAIRMAN: On subsection 13, Hon. Mr. Fielding proposes to strike out numbers 13 and 14, so we will consider them together. He puts in this: "Call and short (not exceeding thirty day) loans in Canada on stocks, debentures, bonds and other securities of a sufficient marketable value to cover."

Carried.

The CHAIRMAN: And on subsection 14, Hon. Mr. Fielding proposes to amend to read: "Call and short (not exceeding thirty days) elsewhere than in Canada on stocks, debentures, and bonds and other securities, of a sufficient marketable value to cover."

Carried.

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Mr. COOTE moved an amendment to Schedule G, as follows:

"That Item No. 14 under "Assets" be struck out and the following substituted:

Call Loans in Great Britain.
" " British Colonies.
" " United States of America.
" " Other foreign countries."

Mr. Coote's amendment declared lost.

The CHAIRMAN: Mr. Fielding moves to strike out Item 15 and substitute the following:—

"For current loans and discounts in Canada, after making full provision for all bad and doubtful debts."

He also does the same thing in connection with Item 16, to which he moves the following amendment:—

"For current loans and discounts, elsewhere than in Canada, after making full provision for all bad and doubtful debts."

Hon. Mr. Fielding's amendments declared carried.

Mr. COOTE: I have an amendment as follows:

"That Schedule G be amended to show deposits and loans in each province in Canada."

Seeing that this would make the monthly return rather cumbersome, I will withdraw that amendment.

Schedule G—Assets—20. Overdue debts.

The CHAIRMAN: Mr. Fielding has an amendment to Number 20 under the heading of Assets, by striking out Item No. 20 and substituting therefor the following:

"20. 'Noncurrent loans'."

Hon. Mr. FIELDING: The words "Overdue debts" seem rather objectionable, and the item "noncurrent loans" was proposed as a substitute. I think that was understood to be acceptable to the Committee.

Amendment carried.

No. 21. Real Estate other than Bank Premises.

Mr. WOODSWORTH: I submit that in a schedule of this kind we ought to have shown simply the assets that can be realized, and that real estate should not be put in that category. If it is not stated here, we ought to regard it as a capital investment of some kind and have it stated elsewhere. Looking at this Schedule we ought to know the state of the facts, what the banks hold under their own name, and what they hold through the holding companies; also the values. Some such term as "Fair value" could be used. Unless something like that is done, it seems to me that we do not know how much real estate the banks are tied up with.

Hon. Mr. FIELDING: This does not touch the question of bank premises; it reads "Real estate other than bank premises."

Mr. WOODSWORTH: Quite so, but there should be some way in which we could have some adequate representation of the real situation.

Hon. Mr. FIELDING: This does not represent the investments in real estate. I notice that in the latest return, the whole transaction amounted to no more than \$5,516,000. This item refers to real estate which has been taken by the banks by way of security, and which they can only hold for a limited time; it

does not apply to investments in real estate. It is something which the banks would rather not have, but if they take these bits of real estate they can only hold them for a certain time, not longer than 7 years, unless a special extension is applied for.

Mr. GARLAND: That is quite a long time.

Hon. Mr. FIELDING: It is not a long time if there happens to be a depressed market. You would not expect the banks to sell that real estate under unfavourable conditions.

Mr. WOODSWORTH: Take the case of a subsidiary real estate company, such as we have in the west, would the property held by that subsidiary company be shown here?

Hon. Mr. FIELDING: No, I do not think it would be shown here.

Mr. WOODSWORTH: Under which item would it be shown?

Hon. Mr. FIELDING: I think it was stated that with the exception of the Merchants Bank, there was no subsidiary company. It would be shown by the stocks held by the banks in various ways.

Mr. GOOD: What value is put in?

Mr. EDWARDS: I cannot say. I suppose they put it in at the figure they expect to realize.

Hon. Mr. FIELDING: Are you familiar with the practice Mr. Ross?

Mr. ROSS: I am not familiar with the details.

Item as amended carried.

23. Bank Premises at not more than cost, less amounts (if any) written off.

Mr. SPENCER: Is there any limit to the amount they can write off?

The CHAIRMAN: Once written off, they cannot go back.

Mr. SPENCER: There is no limit?

The CHAIRMAN: No.

Mr. WOODSWORTH: We ought to know what properties are held by the banks for the purpose of getting them written off. In reality they represent real assets which ought to be shown somewhere.

Mr. GOOD: We have had this matter up on several occasions, and I am impressed with the need of having shown somewhere the present value of the real estate held. If the banks are continually writing off their real estate out of profits, by and by the real estate will be written down to practically nothing, and they will have far more assets than are shown in the balance sheet. I think we ought to know what real estate they do have, and it should be shown here or somewhere else.

The CHAIRMAN: The shareholders ought to know.

Mr. GOOD: The public ought to know, because here we have profits concealed under real estate.

Mr. GARLAND: Is there not a return annually?

The CHAIRMAN: Yes.

Mr. GARLAND: To the Minister?

The CHAIRMAN: Yes.

Mr. GARLAND: Would the Minister have any objection to making it public on request?

Hon. Mr. FIELDING: Section 79 deals with that. I do not think we ought to make it a matter of obligation upon the Minister to grant any request that

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might be made for information. That is a matter that ought to be left to the discretion of the Minister.

Mr. GARLAND: Supposing that an economist making a study of this subject were to write to the Minister for a copy of the last annual return, would the Minister be willing to let him have it.

Hon. Mr. FIELDING: Perhaps not. If he had an interest in the bank in any way, if he was a shareholder or was otherwise interested in it, he would probably be entitled to the information. Any one who has a right to the information should get it, but I would not like to lay down the doctrine that any man who wants to get entry to these returns should get it.

Mr. GARLAND: Then I protest against that. Any man who lives in this country and who desires the information is entitled to that information. I object to it being covered up; it should have the widest publicity.

Mr. WOODSWORTH: Objection is taken by the banks again and again to fixing the amount of interest; objection is taken to limiting profits, and so on all along the line. We, on the other hand, are giving them this valuable franchise, and the profits which the banks are making are not merely the business of the banks but the business of the public. If the banks are making exorbitant profits, we ought to know it. Certain of these profits may be concealed in real estate.

Hon. Mr. FIELDING: If there is any danger of a bank writing up its bank premises to a high value, it would be deceiving the public because it would be claiming a strength which it did not possess, but if it writes them off under value, who is hurt? The man who undervalues his assets is not generally considered to be a dangerous member of society; it is the fellow who writes them up and gives to them a fictitious value.

Mr. GOOD: Here is the danger, that when the banks allege that they cannot stand a reduction in the interest rate, they are making a lot of profits that are not shown to be such, that are constantly embedded, so to speak, in real estate. How do we know the value of their real estate? How do we know how much of their exorbitant profits are being hidden in that way?

Mr. SPENCER: The Minister says that they can write their buildings down but not up. I think Mr. Edwards told us the other day that in the case of the Merchants Bank they had written their buildings down and later had written them up again to the same amount.

Hon. Mr. FIELDING: We think we have corrected that.

The CHAIRMAN: Yes, in another place.

Mr. SPENCER: The trouble in this Committee is that one section of it seem to think that the banks are entirely private institutions run for the benefit of the shareholders, and possibly the depositors, while the other half think they are public institutions and should be regulated accordingly.

Item carried.

27. Other assets not included under the foregoing heads.

The CHAIRMAN: Mr. Marler has an amendment on page 17 of the printed list of amendments. The section now reads:

"Aggregate amount of loans to directors and firms of which they are partners and loans for which they are guarantors."

and he proposes to substitute

"Aggregate amount of loans

(a) To directors and firms of which they are partners,

(b) Guaranteed by directors."

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The CHAIRMAN: What do you think of this amendment, Mr. Edwards?

Mr. EDWARDS: I think it would be very difficult to distinguish in most cases whether it came under (a) or under (b). It seems to me to put a task on the banks which they could hardly perform.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: Mr. Coote has an amendment as follows: "That Schedule G be amended by inserting on page 83 of the Bill, after the paragraph commencing with the word 'aggregate' in line 9, the following paragraph: "Aggregate amount of loans to corporations upon whose boards any director of any bank is a member'".

Amendment declared lost.

The CHAIRMAN: Mr. Coote moves the following amendment: Maximum and minimum rate of interest charged by the bank in respect to loans in each of the several provinces in which its head office or branches are situate, rate..... per cent".

Mr. COOTE: The reason for moving that is I think that some provinces are being discriminated against very unfairly in the matter of interest rates. I do not wish to take up the time of the Committee nor to indulge in a great many figures but from one return which was brought down in the House about a week ago I find that on loans—or discounts, rather—the discount rate charged in different provinces in Canada on the same sized loan and for the same period of time differs to this extent; that there was one in one province at 12 per cent and another in another province at 3 per cent—

Hon. Mr. FIELDING: Were those the averages?

Mr. COOTE: No. Those were the maximum and minimum rates. I will read them. This is a discount on amounts between \$50 and \$250 for a period of three months. There was one made at Lacombe, Alberta, at 12 per cent, and one for the same amount at Hagersville, Ontario—a three months' loan—at 3 per cent. I am quoting from the return.

Hon. Mr. FIELDING: There is evidently a mistake there. If not, we want to go there to borrow at once.

Mr. GARLAND: May I ask if that is a Government return? Perhaps that is meant for "8 per cent."

Mr. COOTE: I assure you it is not meant for 8 per cent. I will give the Committee the next one; that is, on amounts between \$250 and \$1,000. For a three months loan at Oakburn, which I think is in Manitoba, the rate charged was 8 per cent, while at Lawson, in Ontario, for the same size loan the rate was only 5 per cent.

Discussion followed.

Amendment declared lost.

Mr. COOTE: My amendment No. 52 is disposed of, and we will consider that my amendment No. 53 is defeated.

The CHAIRMAN: Mr. Coote moves to add another item to this section, under Liabilities, as follows:—

"1. Loans secured by chattel mortgage.

2. Loans secured by mortgages on real estate."

Mr. COOTE: It is generally understood that it is not the business of the banks to loan on chattel mortgages or real estate mortgages. I would simply ask that they be required to show the amount of loans they are carrying under

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these two items. I think they are carrying a larger amount than the members of this Committee realize, and I would simply like to have it shown.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: Mr. Coote has a further amendment, as follows:—

“Banks and branches thereof situate in Canada elsewhere than in cities and towns having a population of over ten thousand population according to the last census, shall remain open for and carry on and transact all the business of a bank as by this Act authorized, on each and every day except bank holidays and Saturdays until the hour of four o'clock in the afternoon.”

Mr. COOTE: If a man has a note coming due at a certain bank, he must get there by three o'clock; if he does not, his note is liable to be protested five minutes after three. I am speaking now for the benefit of farmers particularly; on the average, I should say they live about eight miles from town, and they do not like to take a whole day to go to town just to meet their note when it falls due. If they leave it until after dinner to come to town, which they often do, very frequently they get to the bank five minutes late. It seems to me there should be some hour to which a bank should be required to remain open, so that a man's note could not be protested if he arrived there five minutes late.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: Mr. Shaw has the following amendment:—

“That Section 19 be amended by adding thereto the following:—

(2) No person who occupies the office of a Minister of the Crown in the Government of the Dominion or of any Province of Canada, shall be eligible to hold or occupy, and shall not hold or occupy the office of director of any bank.

(3) Any violation of the provisions of Section 19 (2) shall be and be deemed to be an offence against this Act, and subject to the penalty by Section 157 of this Act provided.”

Mr. SHAW: I adopted this amendment at the suggestion of one of the counsel here. This, I may say quite frankly, is not a thrust at any particular individual. I am not going to argue the matter here. It suffices to say that the matter has received ample consideration before the House. I think it is a desirable principle, and I think it is a principle which should be incorporated in this statute.

Hon. Mr. FIELDING: Why should a distinction be made between the directorship of a bank and the directorship of any other corporation?

Mr. SHAW: I am referring only to the banks because it is the Bank Act that is under revision.

Hon. Mr. FIELDING: I think these are things which I would prefer to leave to the individual judgment of the director himself. There might be circumstances in which it would be wise for him to retire, but to make it a general principle, that no member of the Cabinet of the Dominion, or of a province, shall be a director would be I think, rather severe. I would rather leave it to the director himself, and his own sense of propriety.

Discussion followed.

On a recorder vote, amendment declared lost.

The Committee adjourned until 8.30 o'clock, p.m.

EVENING SITTING

TUESDAY, June 12, 1923.

The Select Standing Committee on Banking and Commerce resumed at 8.30 p.m., the Chairman, Hon. A. K. Maclean, presiding.

The CHAIRMAN: We will take up amendment No. 2 in the printed list standing in the name of Mr. Coote. He proposes to amend Section 20 by striking out paragraphs (a), (b) and (c) and substituting therefor the following paragraph:

"(a) fifteen hundred dollars have been paid up when the paid-up capital stock of the bank is two hundred and fifty thousand dollars or less;

"(b) three thousand dollars have been paid up when the paid-up capital stock of the bank is over two hundred and fifty thousand dollars and not exceeding one million dollars;

"(c) four thousand dollars have been paid up when the paid-up capital stock of the bank is over one million dollars and does not exceed three million dollars;

"(d) five thousand dollars have been paid up when the paid-up capital stock of the bank exceeds three million dollars."

Hon. Mr. FIELDING: Does Mr. Coote still wish to press this amendment? I thought the matter had already been disposed of.

Mr. COOTE: Dropped.

On Section 54.

The CHAIRMAN: Mr. Coote moves that Section 54 be amended by adding thereto the following subsection 6:—"The full and complete list of all bonds, debentures, stocks, and other like investments owned by the bank with their book value."

Hon. Mr. FIELDING: The suggestion is that this be included in the return to the shareholders—is that it?

Mr. COOTE: Yes. Subsection 3 says:

"Any other or further particulars than those called for by subsection 2 of this section, which, in the opinion of the directors, are necessary to a full and clear statement of the affairs of the bank shall also be included and shown in such statement."

The amendment proposed is to give the shareholders an idea of the class or value of the security which the bank holds under that heading. Item (j) in Section 2 says:

"Railway and other bonds, debentures and stocks, not exceeding market value."

Hon. Mr. FIELDING: You would put them right after that?

Mr. COOTE: It refers to that. As item (j) is at present worded, they are allowed to hold almost any kind of stocks that they want. I think that in the investigation of one bank failure which occurred in Canada some years ago it was found that they held a lot of mining stock which was practically of no value, and it was stated by some people that that was the chief cause of the failure of the bank, because they had invested in mining stock.

Hon. Mr. FIELDING: That was the Farmers Bank and the Keeley Mine.

Mr. COOTE: I think this matter was discussed by the Committee ten years ago.

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Hon. Mr. FIELDING: What difference is there between the words in the draft now and the words you use? Item (j) says:

"Railway and other bonds, debentures and stocks, not exceeding market value."

You ask for the same things at their book value; that is the only difference I see.

Mr. COOTE: Their book value and their market value may not be the same.

Mr. EDWARDS: Item (j) in the annual statement will give the book value." Is not that all you can reasonably expect?

Mr. EDWARDS: Item (j) in the annual statement will give the book value, but the book value will not be above the market value.

Mr. COOTE: Do they coincide then?

Mr. EDWARDS: They would.

Mr. COOTE: I would not like to ask for a detailed list, but it should state how much is in stocks of different kinds, and how much in bonds. That was really my idea.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: Mr. Spencer moves an amendment to the same section:—

"That the following words be added to subsection 4, section 54:—

The profit and loss statement shall include and show on the one part the amount of

- (a) Balance of profit and loss account carried forward from previous year;
- (b) Rebate of interest on unmatured bills as at close of previous year.
- (c) Gross profits, including balances of all interest, commission, exchange and other revenue producing accounts;
- (d) Premium on new stock sold;
- (e) Bad debts recovered, previously written off, and the statement shall include and show on the other part:—
 - (a) Expenses of management and operation;
 - (b) Interest paid on deposits;
 - (c) Interest reserved on unmatured bills;
 - (d) Amount written off bank premises;
 - (e) Amount transferred to appropriation account for losses;
 - (f) Amount transferred to officers' pension fund;
 - (g) Sundry appropriations or disbursements not included under foregoing heads and to be shown in detail;
 - (h) Dividends declared (specifying number and date);
 - (i) Amount transferred to rest account;
 - (j) Balance at credit of profit and loss account.

Mr. SPENCER: It would come as an addition to subsection 4. It calls for a balance sheet to be given at the annual meeting but I do not find any details there. I drew this up with the assistance of several men who have given a good many years to banking, and have a good many years' banking experience. I have gone over it very carefully and I feel that as the shareholders more or less leave the business of the bank in the hands of the officials for the whole year, the only opportunity they have of going into the accounts is at the general meeting, and they should have a very full and detailed account. I therefore submit this to the Committee and hope it will be approved. You should not force any of the shareholders to go after these items when it is up to the officials

themselves to submit them at the annual meeting. That is what it is for, and I cannot see any reason why they should not be given full details of their own business.

The CHAIRMAN: What have you to say about this, Mr. Edwards?

Mr. EDWARDS: The banks do not give the majority of these items in their profit and loss accounts; A to D on the one side, and D, E, F, G, I and J on the other side. These items are the items which the shareholders appropriate out of the ascertained profits which are reported to the annual meeting, and to that extent there could be no objection to it; this hardly seems necessary because they do so anyway. No Board of Directors would ever omit the supplying of these details to an annual meeting. The remaining items, however, rather have no proper place in a profit and loss account at all because you have to assemble the remaining items in order to ascertain the profits, and all we can carry into the profit and loss account is the profit, that is to say, with all the necessary expenses taken out, all the charges against earnings which are necessarily to be taken out in order to ascertain the profit, and then the matter goes into the profit and loss account and the shareholders say how they will dispose of these profits. I think that B, C and E on the profit side, and A, B, C and E on the other side really have no place in a profit and loss account and they should be assembled and the net result ascertained before it is taken into the profit and loss account at all. I do not know of any precedent for a requirement of this kind by legislation in the case of any class of corporation. It would be quite a new departure to supply anything of this kind in the Act, and my opinion about the reports to the shareholders is that it is rather a pity to try and describe too much.

Mr. SPENCER: Mr. Edwards says he does not know where we have a precedent before. It seems to me we are continually making regulations through legislation in regard to the Bank Act, and I cannot see why this would not be in perfectly good order. It simply asks for further details to be given to the shareholders; if not in this, then in some other way.

Mr. GARLAND: Mr. Chairman, is there any valid objection raised against giving the shareholders this information in some form, not specifically as an amendment to section 54, but in some form?

The CHAIRMAN: The shareholders can get anything they want.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: On section 56A. Mr. Spencer moves: "that the report called for under this section be published."

Mr. SPENCER: This came up just before noon one day and it was decided to put it off for the time being. The amendment speaks for itself.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: Mr. Irvine has an amendment to section 61, as follows:—

"That the word 'one' be substituted for the word 'three' in the second line of subsection 4, section 61, and that the words 'a fourth' of the third line of the same subsection be struck out and the word 'three' be substituted therefor."

Mr. IRVINE: Mr. Chairman, I think that matter was very thoroughly discussed when the item came up before. I have very little further to say. I believe that it is not fair to leave entirely in the control of the bankers the management of that which really does not belong to them, although it was the idea of the Committee that it did belong to them.

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Mr. EDWARDS: I just want to say this, that the Government's trustee has the actual physical possession of the reserves. The other three trustees are merely checks upon the trustee of the Government.

Amendment declared lost.

The CHAIRMAN: Mr. Coote has an amendment to section 76, subsection 2.

Mr. COOTE: Mr. Chairman, I had two other amendments to make, and I intended to withdraw that one. I see the others have not been printed, but I think you will recall that I spoke of these other two some days ago.

The CHAIRMAN: You wish to withdraw this one?

Mr. COOTE: Yes. I wish to put these other two amendments in instead of this one.

The CHAIRMAN: Very well, this one will be dropped.

On section 76.

Mr. MARLER: I have this amendment, Mr. Chairman, which is in Mr. Hughes' name, to subsection (2) of section 76. I might say that this amendment which I am now suggesting, in the preparation of which I have had the assistance of another gentleman, will take the place of amendments No. 8, on page 4; No. 11 on page 5; No. 37 on page 12 and No. 39 on page 13. As a matter of fact, I should have said that Nos. 37 and 39 should have been previously withdrawn, because they were already included in amendments Nos. 8 and 11, and the one which I now suggest will, I think, be satisfactory.

The CHAIRMAN: Mr. Marler moves the following amendment:

"3. No agent or manager of any bank shall act as agent for any insurance company or for any person in the placing of insurance, whether fire, life, accident or guarantee, nor shall any bank exercise pressure upon any borrower to place insurance for the security of such bank in any particular insurance agency but nothing herein contained shall prevent such bank from requiring such insurance to be placed with an insurance company which it may approve."

Mr. SPENCER: I would like the word "hail" included.

Mr. MARLER: I may say that "hail" was included, but after consultation with some members of the Committee, it was suggested that for a reason which they deemed adequate it should be omitted.

An hon. MEMBER: Why not include "live stock" also?

Mr. MARLER: "Live stock" was also included and also omitted.

The CHAIRMAN: I suppose that "hail" was not put in because it was felt that it might strike a blow at the Weyburn Security Bank which does an insurance business, and which is rather vital to it.

Mr. SHAW: What about marine insurance? Why should that not be included?

The CHAIRMAN: If everything is going to be put in I think we might as well leave it all out.

Mr. SHAW: I understand that Mr. Ross has no objection to marine going in.

Hon. Mr. FIELDING: Why not say "Insurance of any kind?"

Mr. SHAW: I would move that the word "marine" be added to the list which Mr. Marler has suggested.

Mr. BAXTER: I think we should accept the Minister's suggestion and take in general insurance.

The CHAIRMAN: The amendment will therefore read:

"3. No agent or manager of any bank shall act as agent for any Insurance Company or for any person in the placing of insurance, nor shall any Bank exercise pressure upon any borrower to place insurance for the security of such Bank in any particular insurance agency but nothing herein contained shall prevent such Bank from requiring such insurance to be placed with an insurance company which it may approve."

Amendment carried.

On Section 125.

The CHAIRMAN: On page 12 of the printed list of amendments, Mr. Hughes has the following amendment:

"That Bill 83 be amended by adding thereto as subsection three of section 125, the following:—

"(3). Transfers or sale of shares of the bank by directors or other executive officers of the bank, made within a period of one year prior to any suspension by the bank of payment of any of its liabilities as they accrue in specie or Dominion notes, shall be null and void at the option of the transferee who may elect to return such shares or any of them to the transferor and be thereupon entitled to recover the amount of the purchase price thereof, and, in the event of such option being exercised the transferor shall be and become liable as a shareholder under subsection one of this section and the transferee be not liable in any respect whatsoever as to the said shares under the said subsection one hereof."

Mr. IRVINE: Can you tell us, Mr. Chairman, what this means?

The CHAIRMAN: It means that if a director or executive officer of a bank who as a shareholder disposes of his shares within one year prior to the suspension of the bank, the man who bought the shares may treat the whole transaction as null and make him take them back.

Discussion followed.

Amendment declared lost.

The CHAIRMAN: Now we come to a very important amendment which is certainly a new one and that is in the name of Mr. Irvine:

"That section 136 of Bill 83 be amended by adding thereto as subsection 5 the following:—

"Provided however that notwithstanding anything to the contrary in this Act provided it shall be lawful for any number of people to organize a mutual bank by each member depositing with the Treasury Board securities to cover all cheques that they may desire to issue, every kind of security being acceptable that is now acceptable to banks and to the government; each member being permitted to issue cheques against securities up to 60 per cent thereof; the securities to pay no interest, being held only as securities; these banks being limited to the one function of a clearing house for cheques and to seeing that members do not overdraw their accounts; the cheques to be treated as other cheques, and receivable for all public dues at face value.'"

Mr. IRVINE: Mr. Chairman, just before this item is carried I wish to say that I did not bring it in merely to have something to talk about. I brought it in with a view that it would make a mutual bank possible. I do not know whether any community would wish to take advantage of such a section as this, but at least it would make it possible for a community to take advantage of it, whereas under the present system there is nothing else for them to do but to go to a bank which exists.

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Now, it has been said that our banking system is the best in the world. If it is the best in the world, it is not necessary for us to protect it by the Bank Act to such an extent that no other system can possibly come into conflict with it. All that this section would do would make it possible for a bank to be organized and function in a slightly different way from those now in vogue. If a man were to get a law passed that anyone who struck him would go to prison for a long term of years, and after he got that law passed, he put a chip on his shoulder and set himself up as the champion boxer of the world, we would not think he was a particularly brave man. Now, our banking system has first of all a law which gives it a complete monopoly on the whole banking business of Canada, and then it puts a chip on its shoulder and says it is the best banking system in the world, when it has a law which prohibits anybody from knocking it off. I would dare the banks to risk this little bit of competition and I would dare the Bank Committee to have so much faith in the banking system which we have that they will pass this little bit of legislation, and so I am putting it up.

MR. BAXTER: What is meant by the clause "the securities to pay no interest, being held only as securities"? What does that mean?

MR. IRVINE: I will come to the details in a moment, but at the present time I am dealing only with the principle of the thing. I have no doubt if this were to go into operation in any community it would require more detailed legislation being secured, but at the present time I am only arguing for the principle itself and for the incorporation of this clause to make it possible for another kind of bank to be organized. Legislation, I think you will agree with me, should not prevent the struggle between systems, for it is only through a struggle between systems that we can arrive at the best system. If you, by the Bank Act, exclude all possible competition, all struggle between systems, then you have put yourselves in such a position that you will never know when you have got the best system.

Another point in connection with this principle which I wish to emphasize is that we need an opportunity to experiment. Perhaps fifty years from now when those who come after us are here sitting in session dealing with the Bank Act they will be telling that because of the long period of years that this Bank Act has served them that is in itself at least an argument for the fitness of this particular system when in point of fact for all that time they had a Bank Act which precluded absolutely any other system from putting its nose above ground. So, what we need more than anything else is to revive the competition between systems and have an opportunity of experimenting. Some of our very practical people, such as Mr. Hanson, laugh at a proposition of this kind. I do not know, Mr. Chairman, in all history that the practical people of that kind did not laugh at a new venture, but I venture to say that notwithstanding the sneer of the honourable gentleman there is a principle in here that he in his enthusiasm for the present banking system will not risk in competition with that system, which he thinks is the best in the world.

We are doing at the present time many impracticable things, and we will do others. We are continuing a fiscal policy which increases our national debt each year. Every nation in the world is looking to some other nation to take its surplus production, which is obviously an impossibility. We are, I submit, dealing with an impossible financial system at the present time and we have precluded, as I say, any other systems from coming into competition with it. Now, there should be at least an opportunity given to try some other method. This proposed law would make an experiment in banking possible—an experiment in a new type of banking. If it were never utilized that would then at least prove that it were not needed, and that the system which we have now is better than anything that could be organized on the basis of the principle

included in this clause. If you put it out you have shut out competition and you will never know whether you have the best system or whether you have not.

Now, I would like to point out next that an experiment along the lines proposed in this clause would not involve danger of loss to the depositors or anybody else; no loss could be possible. To begin with they pay no interest on the securities against which they are chequing. Thus there would not be attracted to this bank any but those who would seek service in the manner prescribed. I would like to assure my hon. friend who has been laughing at this system if this were put into practice, no depositor would protest that the money of widows and orphans would not be safe, because the money of widows and orphans would not be endangered to the slightest degree, and the depositors giving the security which is now acceptable to the other banks, and acceptable to the Treasury Board, would be allowed to write cheques to the extent of 50 or 60 per cent, or whatever percentage might be fixed by this Committee or by Parliament. Now, the security as you see would be the same as is now used, so there could be nothing wrong with that; that would not inflate any more than the inflation which must take place now, for the man, with the same security that he can at the present time go with to the present banking system, could go and get credit to this extent.

I need not point out that from 90 to 95 per cent of the business of this country to-day is done on a chequing system. That being so, there seems no reason why a community organizing this bank as is prescribed here, might not with the same security that is being used now continue the same chequing system under which they are continuing under the present banking system. If there is any good reason why they should not be allowed to do that, apart from the reason that financiers will object to it, on the ground that this might be the thin edge of the wedge, and the entrance of a new system that might rival their own, I will challenge my honourable friend who has been sneering at this to give one reason why this should not go through. I hope he will take that challenge. This is not a sweeping revolutionary proposition. It is only one single little step. It is the best thing that could possibly be done at the present stage. I would not ask for a reform or change that would infringe upon the present banking system in any serious way. I want to see it prosper and do well, but at the same time I want to have an opportunity in Canada for experimentation which will not be dangerous, but at the same time will give us that competition between systems which is absolutely essential if we are to prove which is the best system.

About the only thing that would be changed insofar as the interest of the people is concerned would be a difference between the interest that is now being charged and the precise cost of bookkeeping. We would have the same old standards, whether it be gold standard or whatever else you may have; no alteration in that, the same old baseless gold basis that we have at the present time. The only reason I see why this clause might not be carried in this Committee is that it may be opposed by the Bankers Association, and I again say that if the Bankers Association are assured that we have in Canada the best banking system in the world, they have nothing to fear from a little, insignificant clause such as I have here proposed.

Discussion followed.

Mr. BAXTER: I move an amendment to that; that this matter be discussed at a later date with a view to framing a separate bill.

Mr. GARLAND: I second that motion.

Motion declared lost.

Amendment declared lost.

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The CHAIRMAN: Mr. Good, you have an amendment relating to Community Banks.

Mr. GOOD: Mr. Chairman, the situation is somewhat embarrassing in connection with this proposed amendment, or act, or new system, or whatever you like to call it, because there is an indisposition on the part of the members of the committee to listen to it. Now, I took the trouble some little time ago to read quite a large book on the Evolution of Peoples Banks. This development has been very marked in Germany from about the middle of the last century up to the present, and it has also been very successful in Italy and to some extent recently in the United States, owing to the influence of the Peoples Bank at Levis, Quebec, which probably some of you will remember was started by the late Mr. Desjardins. I do not think I had better inflict upon the Committee any outline of this system or any information which might be desirable in order that they could reach a conclusion. As I said before, there seems to be a disposition to avoid looking into these matters, and I thought possibly in order to save time that I should bring the matter up in the House when the Bill is going through. If that is agreeable to the Committee, I will postpone my presentation of the case until a later date.

Discussion followed.

Mr. BAXTER: I would suggest that Mr. Good defer consideration of his amendment until the other Committee has reported.

The CHAIRMAN: Mr. Good has himself suggested that he is prepared to drop further consideration of it in this Committee and leave it to the House.

Mr. GOOD: I do not want to press the matter to-night, because it is getting late, and it is about time that we adjourned.

The CHAIRMAN: Shall Mr. Good have leave to drop his amendment now?

Mr. GOOD: I do not want to drop the amendment.

Mr. IRVINE: I move that we adjourn until to-morrow morning.

Hon. Mr. FIELDING: What is to be gained by adjourning? Why cannot the honourable members who are anxious to discuss this amendment go on and discuss it now?

Mr. IRVINE: It is after the hour at which we usually adjourn. I do not think it is fair that we should be called upon to go into the details of this question at nearly eleven o'clock.

Hon. Mr. FIELDING: Mr. Good voluntarily offered to let his amendment go to the House and have it discussed there. Mr. Irvine speaks as if we were forcing Mr. Good to do something, and we are not.

Mr. GOOD: If there were any chance of it being received with some sympathetic consideration, I would be glad to take it up in this Committee, but not to-night.

Motion to adjourn carried.

The Committee adjourned until Wednesday, June 13, at 4 p.m.

DISCUSSIONS

WEDNESDAY, June 13, 1923.

The Select Standing Committee on Banking and Commerce met at 4 o'clock P.M., Mr. A. K. Maclean, the Chairman, presiding.

There are just three matters that we have to consider today—Mr. Good's amendment, Mr. Woodsworth's amendment, and the further consideration of Mr. Coote's amendment of yesterday. Mr. Woodsworth's amendment is:

"That Section 30 be amended by adding thereto as subsection 4, the following:—

'Such officers, clerks or servants shall have and be deemed to have the right of association for all lawful purposes.'

MR. WOODSWORTH: Mr. Chairman, I think that this amendment has nothing very contentious about it. It seems to me to be almost necessary to safeguard the interest of the employees. In Section 30, the first clause states

"The directors may appoint as many officers, clerks and servants as they consider necessary for the carrying on of the business of the bank."

The second clause is:

"Such officers, clerks and servants may be paid such salaries and allowances as the directors consider necessary."

and the third clause is:

"The directors shall, before permitting any general manager, manager, or other officer, clerk or servant of the bank to enter upon the duties of his office, require him to give a bond, guarantee or other security to the satisfaction of the directors, for the due and faithful performance of his duty."

I would add a fourth clause. These others deal with what may be required of the employees; this is to safeguard all the employees, "such officers, clerks or servants shall have or be deemed to have the right of association for all lawful purposes."

In the first place, I would suggest that this is simply carrying out the actual wording of the guarantees of the Peace Treaty of Versailles, where not only all employees are granted the rights of association for lawful purposes, but also employed persons. That is by no means confined to people of any one branch or any one class of employee. The idea is that men have certain rights as individuals, and that whereas organizations seem to be necessary today, they have a right on their part to organize. I may say that there has been a good deal of criticism by the public at large with regard to the treatment by the banks of their clerks and employees. In the first place, there has been a very great discouragement at any time when the bank clerks have attempted to organize themselves. I do not know that it is necessary to give instances of this, but the effort apparently has been made to discourage organization, and possibly those who have taken the lead in these cases have been discriminated against in various ways. Then, too, the bank clerk is required to perform very trying duties, duties involving a very considerable degree of capability and trust. I think we all recognize that fact. He is asked to give securities; he is placed again and again in positions of great trust. He is also under discipline that is not usual in the case of most employees. For example, I think it has already been cited in this Committee that most of the banks have the regulation that a man shall not marry until he reaches a certain standing in the bank and obtains a certain

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salary. I think that if that were considered from a legal standpoint, its validity would be found to be rather doubtful. Today we recognize the right of no company to dictate to its employees their social conduct or to say exactly whether or not they will marry or exercise certain normal functions. It is going a long way when a bank undertakes to dictate to its employees along that line. The only instance I know of is in some ecclesiastical bodies, and that discipline comes from the middle ages, and it belongs to the middle ages.

One other point is the very low salaries paid. I think that the Minister of Finance stated on one occasion that such a state of things had largely passed. I do not think it has. I am informed that in some banks—I was told in the Bank of Montreal—that a good many begin at \$350.00 a year. Sometimes that is supplemented by certain allowances in the way of accommodations, but for the clerk who is not so supplemented, I have been informed that in a good many banks the salary is not above \$65.00, \$70.00, and \$75.00 a month, and that in a very large proportion of cases the employees there get less than \$100.00 a month. I do not know how men can live on that and keep up appearances at all, dress and behave as men in that position are supposed to do. I have had various representations made to me along this line by bank employees. Perhaps this note which came to me the other day may illustrate the attitude of some bank clerks:—

“I hope you will be able to get your motion through. You would be surprised to hear the small salaries some bank clerks receive; clerks like myself receiving \$1300.00, married with two children and expected to keep up appearances. My brother received \$1400.00, married with two children, and he felt it a disgrace; he could not live. It is very hard for me to resist temptations. The banks should be made to give better salaries by law.”

I do not know just exactly how we can insist upon banks being compelled by law to give larger salaries. Personally I would have no objection whatever to introducing something in the nature of a minimum wage. I think that no man ought to be employed for less than will keep him in decency. It seems to me that ultimately it ought to be made a crime to employ a man at less than a living wage. The right of organization has long been recognized in other classes, and why should we make an exception in the case of bank clerks? Why should they be denied the right of organization, of coming together to air their views in any respect whatever. They would only be doing what almost every trade and profession has done. It is generally recognized that there is a value in organization. People become more responsible, have a better standing themselves and are held in better repute in the community. We had before us a week or two ago a question with regard to chartered accountants, for example. We recognized the principle of organization there, that a man ought to belong to an organization and a provision was specifically placed in the Act that a man should not be employed to do certain duties unless he belonged to a certain organization. I cannot see any justification whatever for recognizing the organization of the bankers themselves, and various other professional and business organizations and denying it to the employees of a bank, especially as the principle is recognized internationally. This amendment is very simple; it is not long. We ask for nothing more than the most primary right of man, the right of association for all lawful purposes.

Mr. KELLNER: I would like to support this amendment. I think we have given the banks practically every consideration they have asked for under the Bank Act, and I think it is only fair that the men should be entitled to the small privilege which they are asking for under this amendment. According to their statements, the banks have used a little pressure to keep them from organ-

izing in the past, and I think this Committee would be well advised to put themselves on record as being in favour of the employees getting an organization of their own and suggesting to the banks that we consider it their duty to pay a living wage at all events.

Mr. COOTE: I was asked to make a protest before this Committee about the wages that some of the clerks are receiving in the banks. I have not had an opportunity before, and I want to do so now. It was drawn to my attention by an experienced stenographer who had three years' experience in a bank, and who was an efficient stenographer working for the District Court in Alberta, that she had applied for a position as stenographer to the Royal Bank and had been offered \$50.00 a month. She told me that she would have to pay \$40.00 a month for her board. It did seem to me that the salary offered by the Bank was rather out of the way. I know that some clerks are complaining very much. An accountant in a bank where I live recently left the bank and went to California, because, he said, he could not keep up a decent home on the salary he was getting. I think it would not be out of place to refer to the conditions that obtained in the banks at the time I entered the banking service. I know that then a number of boys entered the service at \$100.00 a year, and they could not possibly get board alone for less than \$150.00.

The CHAIRMAN: That is not the practice now.

Mr. COOTE: I hope that practice does not obtain now.

The CHAIRMAN: I think that in Scotland, years ago boys entering the banks had to pay for the privilege.

Mr. COOTE: We have recognized the right of the bankers themselves to organize; they have the Bankers' Association, and I see no reason why we should not adopt the amendment of Mr. Woodsworth.

Mr. IRVINE: I have knowledge of a case where a number of bank clerks, and also the bank managers in a little town tried to organize, and while the banks say that they do not prevent such organizations, it so happened that everyone of the leaders in the movement were quietly moved to other points, and some of them discharged; and I suppose that would be repeated unless it were made possible for organization to take place simultaneously all over the Dominion of Canada. So it may be well to have something in the Act which would give the men the right to organize.

The CHAIRMAN: I think that in my city there was an association formed two years ago.

Mr. MITCHELL: What is to prevent them from organizing?

Mr. HANSON: Not a thing.

The CHAIRMAN: There is nothing to prevent them.

Mr. SPENCER: I support this amendment. I have been told by several bank clerks who would like to organize that if they talked about it, cold water was always thrown on it by their superior officer.

Hon. Mr. STEVENS: I want simply to say that I do not intend to vote for the amendment, and I frankly state my reason without discussing it at length. Bank clerks or any other group of employees have a perfect right to organize for any lawful purpose, but I do not think it is advisable to put in this legislation, or in any other legislation, a specific declaration to that effect. A specific declaration as to labour's rights should come under separate legislation altogether. I am personally opposed to the introduction into the Bank Act of any declaration of that kind.

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Mr. WOODSWORTH: The Act states that officers and clerks and servants may be paid such salaries and allowances as the directors consider necessary. That is a recognized axiom of business. There is nothing new or startling in that.

The CHAIRMAN: There is no real need of it being there.

Mr. WOODSWORTH: But we put it in, and there is no particular reason, when these other things are stated, that this should not be clearly stated. I think it would be an advantage if it were recognized that bank clerks as well as any other group have the right to organize.

Amendment declared lost on a show of hands.

Mr. WOODSWORTH: I would like a recorded vote.

Amendment declared lost on a division.

The CHAIRMAN: Mr. Coote's amendment is really a prohibition against banks lending money or making advances in excess of 10 per cent of their paid-up capital. It reads as follows:

"Section 76, subsection 2, be amended by adding the following paragraph:

"lend money or make advances in excess of 10 per cent of its paid-up capital to any Company or Corporation in which the president, general manager or director of a bank is a shareholder without the unanimous approval of all directors present at either a regular or special meeting of the board of which due notice setting forth the proposal of or such advance or loan, has been given to all directors."

Hon. Mr. FIELDING: I have the same thing in another form, except that I have adopted the three-fourths majority, which I thought met with approval in the discussion last night.

An Hon. MEMBER: It was two-thirds.

Hon. Mr. FIELDING: I can make it two-thirds. (Reads).

"Section 76, Subsection 2 be amended by adding the following paragraph:

"(f) lend money or make advances in excess of 10 per cent of its paid-up capital to a director of the bank or to any company or corporation in which the president, general manager or a director of the bank is a partner or shareholder, as the case may be, without the approval of two-thirds of the directors present at a regular meeting, or meeting specially called for the purpose, of the board."

I think that conveys Mr. Good's idea.

Mr. MITCHELL: That goes further, does it not?

Hon Mr. FIELDING: It takes in directors as well as corporations.

Mr. KELLNER: I thought we agreed that three directors would be a quorum, and two-thirds of that number would be pretty small. I think the amendment ought to include the entire directorate of the bank.

Hon. Mr. FIELDING: I do not think that any loan would be made with any director dissenting. They would not take the responsibility in that case.

Mr. COOTE: I agree with the Minister, it should be with the unanimous consent of the board. It seems to me that if there is no unanimity on a loan of that size, they would not make the loan. The fact that I wanted to bring out in this amendment was that in a case of a large loan which would likely affect the standing of the bank, no director could say "I knew nothing about that loan; I got no notice." If the amendment which I have suggested were passed, it would necessitate the directors getting notice of the meeting.

Mr. HANSON: They would all get notice.

Hon. Mr. STEVENS: If this passes, we are virtually prohibiting the loaning of money in excess of 10 per cent of their paid-up capital to private corporations in which those officers are shareholders. If such a loan were granted under this Section, whether unanimously or by two-thirds of the directors, and the result of making that loan was the wrecking of the bank, would the presence of such a provision in the Act affect the ordinary liability of the directors under the Act as it now stands, and without this special provision in it?

Hon. Mr. FIELDING: I would not like to answer that; that is a question for our legal friends.

Mr. COOTE: Would Mr. Stevens repeat his question?

Hon. Mr. STEVENS: Supposing a bank grants a loan exceeding 10 per cent of its paid-up capital to a company in which a director, or the general manager is a shareholder and the loan receives the endorsement at a meeting of the directors under this proposed clause, and the result of making such a loan was the wrecking of the bank, or was one of the chief causes, would the presence of this clause in the Act and the action of the directors under it relieve them from the ordinary responsibility which they now bear in making loans and in directing the affairs of the bank?

Hon. Mr. FIELDING: I do not think it relieves them of any obligation, surely not.

Hon. Mr. STEVENS: Would it lessen their responsibility, if this was in the Act as it now stands?

Mr. W. F. MACLEAN: It would not change it.

Mr. LADNER: I suggest that the rights of directors to loan money are complete. The effect of this amendment is just to place a certain restriction or to call the attention of the directors to the matter; but it does not affect the liability or release the directors from any liabilities which otherwise they may have.

Mr. MITCHELL: You could say "without relieving them from any other responsibility."

The CHAIRMAN: It does not release them from any other responsibility.

Mr. LADNER: I would like to repeat what I said last evening, that in my opinion the amendment is a very wise one, because anyone who has gone into the history of our banking system or bank wrecks in the past, will find that 95 per cent of the banks which have been wrecked have gone to their ruin because one or two large institutions had received large loans. If we pass legislation like this we will correct something that we have learned from experience.

Hon. Mr. MEWBURN: This would mean that every director of a bank would have to give to the general manager a record of every company in which he held stock. There might be a director who did not live in the city where the head office of the bank was, and the manager might or might not know that he was a shareholder in a company applying for a loan. Personally, I think it is a very dangerous clause to go in.

The CHAIRMAN: Do you wish your amendment to be adopted, Mr. Coote, or that of Mr. Fielding's?

Mr. COOTE: I am quite willing to accept Mr. Fielding's and let my own drop. I would like to see it made unanimous.

Mr. MCCREA: I think it applies only to institutions in which directors or officers of the bank hold shares. I think this is a pretty wise provision. If any corporation wishes to get a loan exceeding 10 per cent of the bank's paid-up capital, I think it is well that the directors of the bank should know of it and get

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a majority in favour of it. I think it is a very wise measure, and will do no harm. I think it is wise that where a corporation or company wants a loan of more than 10 per cent of the bank's paid-up capital, the directors should hold a special meeting if necessary and get the consent of the board, not the unanimous consent, because if you say "unanimous consent," there might be some other fellow on the board who wanted to get some credit to which he was not entitled, and in order to get the credit to which he was not entitled he might say, "If you want the unanimous consent of the Board for such and such a concern, or a line of credit exceeding 10 per cent of the paid-up capital, I will oppose it unless you grant me what I am asking for."

Mr. GOOD: I would like to draw the attention of the Committee to the desirability of having directors notified in advance of this particular business coming up. It might be that this matter would be submitted to a regular meeting, and the directors would get no notice of it, and perhaps not attend; whereas if they had notice of this particular matter, or that it would be considered, they would be anxious to attend the meeting. I talked to Mr. Coote last night about that matter, and I think he tried to draft an amendment that would include the sending of notice of meeting at which such a loan would be taken up.

Hon. Mr. FIELDING: They ought to be there anyhow.

Mr. GOOD: I do not think it is covered in the amendment.

Mr. MITCHELL: It says "all meetings specially called for the purpose."

Mr. COOTE: There are a number of directors who do not live where the head office of the bank is, and they would know nothing of this loan unless notice was given.

Hon. Mr. FIELDING: It says "regular meeting, or meeting specially called for the purpose."

The CHAIRMAN: I think you must allow banks to transact any general business at a regular meeting. With the consent of Mr. Coote I shall withdraw his amendment in substitute of Mr. Fielding's.

Mr. GOOD: I think the applicability of that phrase "specially called for the purpose" would be to a special meeting. If you applied it to a regular meeting, the objection would fail.

The CHAIRMAN. They may have a meeting every day.

Mr. RYCKMAN: Before this is assented to, I would like to point out this to the Minister: Suppose in connection with his new issue of bonds of the Dominion of Canada—I am taking a suppositious case—the Canada Life Insurance Company desires to take \$2,000,000 of those bonds, and its bankers, we will say, are the Bank of Nova Scotia, which I believe to be the fact—if he offered to lodge with the bank the \$2,000,000 of Dominion bonds which they already held, together with the \$2,000,000 which they purchased, that transaction could not be consummated without calling a directors' meeting.

Hon. Mr. FIELDING: The directors' meeting would give their consent immediately; there would not be a debatable feature.

Mr. RYCKMAN: You are aware that there are large transactions of an obvious character and of the highest worth of financial securities which are required to be put through very quickly.

Hon. Mr. FIELDING: That could be done at a regular meeting. I do not think it is necessary to give notice of every regular meeting where they do their daily routine business.

Mr. RYCKMAN: The regular meeting of some banks is held once a week.

The CHAIRMAN: Mr. Ryckman objects to the principle altogether.

Mr. RYCKMAN: I object to the principle, because I think it will do more harm than good. In any case, the regular meetings of some banks are weekly, and a week is sometimes too long to wait.

Hon. Mr. FIELDING: I do not think it is absolutely of very much good, but I think it is a concession to public opinion which we may very well make.

Amendment declared carried.

The CHAIRMAN: In regard to Mr. Good's proposed amendment relating to community banks, (see pages 82 and 83) there are two or three things to which I would like to call your attention. You will notice that in substance the proposal is the local promotion of a private bank, which may be carried on to-day, and is being done I understand in many places in Canada. Clause 7 says that the bank shall not issue notes or currency until the Provincial Government has guaranteed the notes of that bank, and if it suspends, guarantees its liabilities. I doubt very much if a Provincial Legislature has authority to do that. They may guarantee the liabilities of a bank, I suppose, but I doubt their power to guarantee or legislate in respect of currency. I doubt whether they have the constitutional authority to legislate in respect of that.

Mr. MITCHELL: Without legislation.

The CHAIRMAN: Or with legislation. Another feature of this amendment is that it is so much in conflict with the main purpose of our banking system which is founded upon the branch bank system that it would not be possible, in my opinion, to adopt this amendment as part of this Bill. It is in conflict with a great number of sections. If we adopted it, we would require to go back and amend a very great number of sections. I am just putting that view to the Committee. Of course, there might be a separate Bill.

Mr. GOOD: It may be as you say, Mr. Chairman, that this particular type of bank should be organized under a separate Act. I stated that last night, but we have nothing else at the present time, and I do not know when we are going to get anything else. I hope that we shall have something before many years are passed, that will allow the organization of small banks, co-operative banks, and so on. I cannot quite feel that what you say is so, although I have not gone through the Act carefully, that there is any serious conflict between the provisions of this amendment and the clauses of the Act—and if there is not any serious conflict, then it occurs to me that we might perhaps allow the opportunity in various localities to people interested to start a small bank, and the opportunity could be increased by reducing the capitalization from \$500,000 to \$100,000. The object of the amendment then would be to enable those who are interested to make a start, and to allow other than branch banks to get a foothold in Canada if the various communities so desire. Now, I am satisfied in my own mind that there are a great many advantages in local banks. I am prepared to admit that there are many advantages in the branch bank system, but it seems to me that we ought to be able to have both of those systems working side by side, and in that way we could see which would be the better.

I do not know whether this Committee would care to hear what I would like to say in regard to co-operative banking in general. I have prepared a good deal of material on the subject, but perhaps this is not the time or the place to elaborate that material. I may say this, however, that the legislation which has been passed in the United States during the past ten years in connection with rural credits, or long term credits, intermediate credits and so on has to a very large extent helped the movement which is now beginning to make some headway in connection with small co-operative credit unions. They

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are not really banks, because they do not issue notes. This whole movement is due to the European movement. The United States sent a Commission to Europe in 1913 to study the whole question of co-operative banking, and on the report of that Commission has been based recent legislation in the United States. I think there is no question that the interest of the people of Canada in this subject at the present time, the study which has been given to this matter by the special Committee on Agricultural Conditions, and to some extent the interest that has been shown in the question in this Committee are all due, or at all events are mainly due, to the fact that legislation has been enacted in the United States relating to this matter during the last ten years. It has occurred to me that if the members of this Committee are interested in this matter, it would be advisable for them to look into the general history of the movement in Europe and see how it has developed there and also in the United States. That, of course, is rather a long story, and I do not fancy that even the brief summary which I might give in half an hour would be acceptable to members of the Committee at the present time, or at least to the majority of them.

I do not wish to press the matter upon the members. As I have said, I am prepared to let the matter stand and withdraw the amendment if I can be shown, or if this Committee can be shown any particular objection to the scheme or any conflict between this idea of smaller banks with a distinctive name and having certain limitations, or between the legislation that is proposed to enable them to come into existence and the provisions of the Bank Act.

The CHAIRMAN: I did not say that it was not possible to do that; I just suggested the difficulties of incorporating it in the Bank Act.

Mr. GOON: I understood you to say that the amendment which I proposed would come into conflict with a great number of sections of the Bank Act.

The CHAIRMAN: You would require to change a great number of the sections of the Bank Act to make the whole Act properly conform to your proposed sections.

Mr. GOON: I do not think so, but I am not absolutely sure. The person who drafted this amendment went through the Act very carefully and made such changes as he considered necessary in order to enable those banks to come into existence. However, I simply want to say this, that in my judgment the whole system of centralized control of finance is breaking down. We have seen the beginnings, and more than the beginnings. We have seen the success of the other type of bank in Europe, and we see now that they are making a beginning in the United States with the co-operative banking system. As between the old form of local private bank in the United States and the centralized bank, such as we have in Canada there is a good deal to be said on both sides; but I am absolutely convinced in my own mind that we shall have to come—and the sooner the better—to the co-operative banking idea with local groups federated in larger units, with a process of gradual federation so that ultimately you will have one central bank for the nation. Or you may take one or two central banks such as they have in the United States—the Central Land Bank and the Central Reserve Bank.

Now, unless the Committee care to hear anything further in the way of details on the subject, I think I had better leave it at that.

Mr. BAXTER: I said practically all I wanted to say on the general principle but I would just like to give a short illustration that will, I think, convince the Committee and particularly the gentlemen who are interested in this matter

of some of the difficulties. I think my hon. friend who proposed this amendment has left the impression that if we made the changes suggested, community banks could function right away.

Mr. GOOD: I think they would have to have capable management and initiative and so on.

Mr. BAXTER: I am speaking of the possibility of bringing them into existence right away.

Section 8 of the Act says:

"The capital stock of every bank hereafter incorporated, the name of the bank, the place where its chief office is to be situated, and names of the provisional directors shall be declared in the Act of incorporation of such bank respectively."

If we are bringing a new bank into existence under the general Bank Act, there would be no form of memorandum of association, no papers deposited that would bring that bank into being. There would be a short special act of incorporation such as we have in the schedule, and then it would be in this Act. Now, what does the draftsman of this amendment do? He proposes to add to Section 8 the following proviso.

"Provided that the name of the community bank shall be the community bank of.....(name of the community)."

He has overlooked the fact, or else he has a different idea from Mr. Good, that to bring a single community bank into existence it would be necessary to wait until next session to introduce a special Act incorporating that bank, and then the general provisions would apply. But he would not have a single community bank until after next session. I am sure that that is not what my hon. friend has in mind. I mention that as one instance to show that the draftsman of this amendment has not had the whole situation in mind, or if he has, he has come to different conclusions from those held by some members of the Committee. That is only a simple illustration. I have looked over the amendment, and that illustration is typical of the whole thing.

Mr. GOOD: Do I understand Mr. Baxter to say that the application for incorporation would have to be submitted and put through by special act of Parliament?

Mr. BAXTER: Yes, by the Act that you are seeking to have changed here.

Mr. GOOD: The Treasury Board at the present time deals with applications. But I do not think it would be a matter of particular consequence to have a year's delay, if the banks have to be incorporated by Act of Parliament. During the period between now and next session there might be some movement started in connection with those community banks which might be given effect to next session.

The CHAIRMAN: I think you would have to make many changes in the clauses of the Bank Act. The returns to directors, notices of special meetings, shareholders' audit, all would have to be modified. The auditors' report to the Minister, issue and circulation of notes, and many other sections would have to be changed.

Mr. GOOD: I had an open mind in regard to it, and as it is pointed out that some changes would be necessary, I think possibly this type of bank should be provided for by special legislation.

The CHAIRMAN: Shall I take the sense of the Committee on the amendment?

Mr. GOOD: No, I will withdraw it, Mr. Chairman.

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The CHAIRMAN: Gentlemen, I want to present this motion, moved by Mr. Baxter and seconded by Mr. Tobin,

"That the Bill be reprinted as amended by the Committee, and that the minutes of proceedings and evidence be reported to the House, with a recommendation that the same be printed in Blue Book form, as an Appendix to the Journals of the House."

Mr. SHAW: I want to make one observation, Mr. Chairman. The report to the House would indicate that this Committee is in favour of granting the charters of the banks for the next ten years. I am not dissenting from the reporting to the House, but I want to make my own position perfectly clear. There can, of course, be no legal objection within the next ten years to this Parliament making fundamental changes, if need be, to the Bank Act. There are a great many people, however, who feel that once having renewed the charters and also the Bank Act, we are under a sort of moral obligation to leave the Act untouched for the lifetime of the charters, and I think that practice has been generally followed, and very few changes have been made to the provisions of the Bank Act during any of these ten-year cycles, except such changes as the banks either recommend themselves, or are in their particular interest. I want to dissent, personally, from that view. I believe there will be very fundamental changes before the next ten years have elapsed, as far as the financial system is concerned. It may be necessary to make very fundamental changes in the Act itself, and therefore I simply want to put my own view before the Committee, that I think in this particular matter we should recognize no legal or moral obligation to keep our hands off this Bank Act during the next ten years.

The CHAIRMAN: I quite agree in that; it has been my view right along, that when fundamental changes are to be made in the Canadian banking system, they should not be made at the time of the decennial revision. They should be taken up in the meanwhile and given ample consideration and study by competent persons, and if changes were actually made of this character, they should come into effect after ample notice.

Mr. W. F. MACLEAN: We have not a law on our statute books which is not subject to revision at all times. All the fundamental acts that we have may be changed at any time. I dissent from the idea that the Act is to remain in force, and that it cannot be revised for ten years.

Mr. IRVINE: May I ask a question? Does not the passing of this Act for ten years, imply a sort of moral obligation that no fundamental change will be made? Does it not imply that to the banks?

The CHAIRMAN: I do not think so, Mr. Irvine.

Hon. Mr. FIELDING: Who can answer that? We may each have any mental reservations we like about this thing.

Mr. IRVINE: I understood that was the statement of the Minister of Finance himself.

Hon. Mr. FIELDING: I said an argument could be made against these fundamental changes. I still think it unwise, but I would not like to claim that any amendment would be a breach of faith. I think each would have to be determined on its own merits. We can do dreadful things; we can absolutely reduce our own indemnity, and what could be worse?

Mr. SPENCER: With regard to having the amended Act printed in Blue Book form, before this time we have had a certain number printed for the use of the public. Will that be done again?

Hon. Mr. FIELDING: The Printing Committee will regulate that.

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Mr. LADNER: Mr. Chairman, I have in mind the remarks of Mr. Shaw, with respect to some moral obligation or undertaking about no fundamental changes being made in the Act during the next ten years, and as one interested somewhat in the idea of the Federal Reserve Bank system, which would require some change, I myself concur in the viewpoint that Mr. Shaw has taken. I think the evidence taken before this Committee, which has been rather extensive, involving a number of theories and ideas, has shown very clearly that among the things to be remedied—the method of which seems to be somewhat difficult—are the possibilities of small banks, some correction or control over the rates of interest, matters dealing with mergers, matters connected with disciplinary powers, giving certain protection to the public which they do not enjoy now; matters connected with the rediscounting carried on now under the Bank Act; control of note issue. All these questions or changes will only be brought about in a practical way by the institution of some Federal Reserve system. In my judgment, while now we may not be able to have small banks with a capital of \$100,000 and at the same time maintain the protection of the public, under the Federal Reserve system, you could certainly have a great number of small banks with small capital scattered through the country, because they will have the support of the Federal Reserve system. I wish to make these few suggestions to the Committee because I feel that before ten years are up, before two or three years are up, with the Government taking advantage of the immigration policy which is being brought down, and the fulfilment of that policy, let us say, we will have such an expansion of business and of prosperity in this country that it will then become absolutely imperative to make some change in our banking system, and that change will be the solution of the difficulty which has been brought before the Committee, in the establishment of a Federal Reserve system.

The CHAIRMAN: Gentlemen, shall the motion carry?

Motion declared carried.

The CHAIRMAN: Shall I report the Bill?

Some Hon. MEMBERS: Carried.

Mr. COOTE: In regard to Section 62; you will remember that when that was finally passed, I raised the point that I objected to it being passed until we had decided what we were going to do about the clause limiting the rate of interest, and you passed it with the remark that I could bring it up again if I wished to do so. I am not going to bring it up again, but in reference to the remarks of Mr. Shaw and Mr. Ladner, I want to say that as far as I am concerned I would like to make it clear that I do not consider there is a clause of the Bank Act which must remain in force for ten years. I simply want to emphasize that.

The Committee adjourned until 11.30 o'clock a.m., Thursday, June 14th, 1923.

DISCUSSIONS

THURSDAY, June 14, 1923.

The Select Standing Committee on Banking and Commerce met at 11.30 a.m., Hon. A. K. Maclean, the Chairman, presiding.

The CHAIRMAN: Our business this morning is the consideration of Mr. Irvine's resolution, or the disposition we should make of it. We discussed it generally the other day, but we did not reach any conclusion. Mr. Irvine

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appeared to be satisfied that if we reported that we had taken evidence and submitted to Parliament the evidence that had been taken in regard to his resolution, he would have an opportunity to discuss the whole subject in the House.

Mr. GOOD: I did not understand Mr. Irvine to say that.

The CHAIRMAN: He said something like that.

Mr. IRVINE: Of course, you would have to report something about it anyway.

The CHAIRMAN: Yes, we must.

Mr. IRVINE: I think that the Committee should recommend that the study of the matter and the investigation be continued next year, because we have not inquired into it in a manner which would justify us in coming to any definite conclusion. Next year we will have no Bank Act to trouble with, and will perhaps have less work to do. I do not mean that we should go into it at any great expense, but we ought to continue the investigation.

The CHAIRMAN: You mean for example that so far as Professor Irving Fisher's theory about the stabilizing of gold values is concerned; we have not gone into that sufficiently to enable us to make a report.

Mr. IRVINE: Take the matter of the basis of credit; there is a good deal of difference of opinion between the modern bankers and economists as to what constitutes the basis of credit. I do not know that we have come to any definite conclusions on that. Then there is the function of money and credit. That has caused a good deal of difference of opinion also. One school of thought says that the function of money is to act as a distributor of goods. Sir Edmund Walker denies that and says that it is only an incidental function, that it is not the function of money at all. Then there is the question of control. There is a movement in Canada and indeed in every country in the world in that regard; it is a question of whether the control of such important institutions as banks should be allowed to be concentrated in the hands of a few individuals along private lines. Then there is the question of the curtailment of credit or the expansion of credit, and another question of great importance is how we are going to prevent the continuation of inflations and deflations. These are big questions, and we have not settled them; we have scarcely scratched their backs, so to speak. The point is whether we intend to deal with them in a fundamental way. I imagine that if we continued our investigation for the next ten years, it might not make much impression on some members of the Committee, but it might make a little, and I think we ought to try.

The CHAIRMAN: I would like to hear from other gentlemen on this point.

Mr. GOOD: I have something to say on this question, and I will try to be as brief as I can. I referred the other day to a book entitled "Money." It is the most recent, and I think the most comprehensive and up-to-date work on the subject that I have yet read.

The CHAIRMAN: Is that by Brandeis?

Mr. GOOD: No, it is by Foster and Catchings. It is published by the Pollak Foundation for Economic Research. I may say that Professor Irving Fisher's "The Making of Index Numbers" was the first volume published by this Foundation in the previous year, and they are planning to issue a number of volumes following this subject up. I would like to recommend this book very highly to members of the Committee.

The CHAIRMAN: Is it in the library?

Mr. GOOD: Yes. It is quite conservative in its general point of view, and very illuminating indeed. I have not read it all yet but I have looked through it and intend to give it a careful study. In it you will find a very interesting

discussion and criticism of a number of matters that have been before the Committee; for instance, Major Douglas' theories and proposals, Professor Irving Fisher's theories, and various matters of that sort including the proposals of Edison and Ford on the other side of the line. The whole question of the function of money and its control is dealt with. I want to point out that there is here a statement that the money question is the central economic question; that the development of modern civilization has resulted in making the problem of finance the central problem of all economic problems at the present time, and for that reason, it seems to me, we would be very negligent indeed if we did not continue the work which has been begun this year. With Mr. Irvine, I would not like to see any unnecessary expense involved, but we have already collected a great amount of good material, and there is now in book form a lot of other material; and it seems to me that the thing we should do next year is to discuss these matters that have already been presented to us. We have not had any time to discuss them so far, and will probably have no time this session; but it is altogether likely that next year there will not be anything pressing in the early part of the session, and if the recommendation were made that the Committee on Banking and Commerce take the matter up next year early in the session, we would have a very considerable amount of time, and meanwhile those members who are interested in the matter could read and digest the evidence which has been submitted and read whatever supplementary information might be obtainable in book form.

I just want to read one or two paragraphs from the final chapter in this book in order to impress upon the Committee what I have already said. In a chapter entitled "Conclusions" there are a number of sub-headings, a few of which I will read. (Reads.)

"Economic problems are not chiefly moral problems"—

Under this sub-heading the writers state:

"Contrary to the contentions of many reformers, the root of economic problems is not moral. We can imagine a ship lost at sea, without officers or crew, a ship with mechanically perfect engines, ample supplies of fuel and oil, plenty of able-bodied passengers, with the best will in the world toward each other, and of one mind concerning the port they wish to reach. Yet we know that the machinery and good will would leave the passengers helpless, unless they knew how to run the ship. So it is in the world of business. Good will toward men is not enough. Often we are told that the root of our industrial troubles is greed, that all would be well with the world if captains of industry were inspired by the love of mankind; but when it comes to telling us exactly what to do in the concrete situations of everyday business, moralists are often silent, or vague, or absurd. No matter how earnestly men may desire to do unto others as they would have others do unto them, they cannot follow that golden rule when, in a given complicated situation, they are at a loss to know what they really would like to have others do unto them. The fact is that even in those unusual cases in which managers of industry have any real choice, they are often puzzled to know whether public welfare requires them to shut down factories or to continue producing goods that cannot be sold, to take the risks involved in borrowing money or to discharge workers. Those who are chiefly responsible for our commercial and financial policies do not bring down upon us the evils of inflation and deflation through design, but because they do not yet understand these movements, or know exactly what to do to prevent them."

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The next sub-heading is "Means of litigating fluctuations in the price level." That deals with Professor Irving Fisher's theories. Another sub-heading is "Prices and Federal Reserve Board Policy." That refers to the matter which Mr. Ladner has brought before the Committee. The next sub-heading is "The rediscount rate an insufficient means of control." Still another is "Our vast gold reserves offer a unique opportunity."

The CHAIRMAN: Who are the authors?

Mr. GOOD: I cannot tell you anything about them. I gathered from the correspondence I had with Professor Sprague of Harvard that the Pollak Foundation assigns certain economists to investigate certain matters, and it supplies them with the leisure and money necessary to carry on the research.

The CHAIRMAN: Is it a Harvard endowment?

Mr. GOOD: I could not tell you; I am sorry I have not the information. Another subheading is "An emergency measure that might help." The next is "How much money does business need?" Another, "At what level should prices be stabilized?" Then there is a subheading "Conclusion." I am going to read this conclusion, and that will conclude all I have to say. I hope the members of the Committee will listen to this. (Reads).

"Periodically, the economic organization of society proves defective: men, materials, and machines, ready to do their part, are not brought into such relations that they can go on with the world's work. This is the commonplace remark with which we opened our discussion of "Money." These recurrent business depressions, we observed, have caused economic losses in the United States greater than the incomes of all our millionaires, and losses other than economic of which we are all aware, but for which we have no measure. How to prevent these losses—how to keep our machinery moving at maximum productivity and the products moving into consumption at the same rate—is the economic problem.

"The problem can be solved. There is no evidence that the alternation of prosperity and gloom is due, like the procession of the seasons, mainly to natural causes over which man has no control. Neither is it possible to discover any major influences, inherent in human nature or in the nature of business, that cannot be sufficiently moderated by human insight and decision. The chief factors in business fluctuations, as we have shown, can be measured with a high degree of precision and are much more amenable to human control than has seemed possible in the past. Dominant among these factors is money. But money cannot be controlled as it should be controlled until we know more about the exact ways in which it helps and hinders all the processes of production and distribution. In the present volume, we have done little more than analyze those characteristics of the established monetary economy which must be taken into account before it is possible for any one to discover how to keep the machinery going. Even this incomplete analysis, we hope, may have a part in stimulating others to think their way further into the intricacies of the problem."

This is all I have to say this morning, with regard to the problem of money, which, in my judgment, is one of the central problems of economics, if not the most important at the present time.

Now, there is an allied problem which has reference more particularly to banking, and which, I think, is pressing itself upon all people nowadays, in Canada, as in the United States. There is the question of control over credit. The book by Justice Brandeis, to which I referred the other day, deals with the way in which a certain very small number of Americans have gained control over

the financial resources of that country. It deals also with the various unfortunate consequences which follow from that control. Not only is it a menace to industry and to political liberty and democracy, but as this man says it really breaks down from the standpoint of efficiency. The whole question of interlocking directorates is involved in this. From my own observation of Canadian conditions during the last fifteen years, I am convinced that we are rapidly approaching the situation dealt with in that book.

The CHAIRMAN: I doubt whether Justice Brandeis is a competent economist. I do not know that he would be regarded as an authority. I think that if you analyze this book you would place it rather in the category of a sociological or political work.

Mr. SHAW: Is it not the fact that Brandeis was solicitor at the time of the Armstrong Commission which investigated the interlocking of directorates?

The CHAIRMAN: I think he was counsel.

Mr. SHAW: I think it was as the result of that investigation that he wrote his book. If my recollection is correct, the facts and figures are all set out in the book, and it seemed to me that his conclusions were eminently justified.

Mr. GOOD: This particular book deals with the financial problem from a different aspect from that of the other book from which I quoted. It is much more specific, and if you like to use the word, "political." Justice Brandeis was called upon to sit in judgment, and he investigated a number of specific cases in the United States, and in this book he has expressed the opinion very strongly as to the dangers involved in that situation. I simply wish to submit to the Committee that we have, probably without being aware of it, drifted pretty well into the same situation in Canada, and that if we do not take cognizance of that situation we may suffer from the same evils as they have suffered from in the United States. I think we have suffered from those evils. As I stated yesterday, I am of the opinion that the system of centralized control over finance, particularly in the distribution of loans, is thoroughly unsound, and inefficient. I think that there is hardly a banker, particularly in Europe, who will say that the centralized system is better from the standpoint of the welfare and activities of the people, or from any other standpoint. We have two general systems which we could very well federate, the one operating from the top downwards, an autocratic system with its various ramifications at headquarters, and the other system which I would call the Federal system on which our political institutions are generally built. We could have local units which could be federated into larger units, and we could build it up from the foundation to the top. I would venture the opinion that the time is coming when we will have to consider the complete revolution, not of course in a year or two, of the constitution of our financial system.

The CHAIRMAN: You mean the branch bank system?

Mr. GOOD: Instead of operating from the top downwards, it should operate from the ground up like our other institutions in British countries.

The CHAIRMAN: You mean local banks?

Mr. GOOD: Yes, built up and federated into larger units. This idea has worked out satisfactorily in a number of European countries, and it is beginning to be developed in the United States. They have local private institutions which a few years ago could scarcely have been operated at all, but which now are being linked up with the various district banks and the general Federal System. They are working in the United States toward a different constitution as regards their banking system.

These two great classes of problems seem to me to be very urgent, and if we could find a solution, even if it should be only a partial solution, even if

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it were only a tentative or experimental movement in the direction of reform, I think it would be very helpful. There is no doubt in my mind, or in the minds of Members of the Committee as well as among Members generally, that Canada is in a very serious economic situation. We find that in the United States, things are very much better at the present time than they are in Canada. We are going behind. We have deficits every year; we are not paying off our public debt; our best young people are drifting to the other side; and I think the future looks very black.

The CHAIRMAN: Is that due to our banking system?

Mr. GOOD: I am not prepared to say what the connection is or to what extent, but there is some connection. I do not think it is fair to assume that there is no connection. If, as is stated in the book to which I referred, the central economic problem to-day is the money problem, the presumption is that these various depressions or bonus in the general economic conditions are closely linked up with the financial system and with the money system and the operation of our banking system. As I have said, I am not prepared to submit detailed evidence in support of that, but I do think that looking at it in a general way that is the presumption. Therefore, I say that this is a matter with which we must deal. We must not brush it aside as of no importance. It is a matter which will require very careful consideration. I do not believe in hasty action, but I do believe in hasty investigation; I believe in losing no time in finding out the facts and the causes of the facts and devising suitable remedies.

There are two sides to this problem, one relating particularly to our whole banking system, and the other to the more fundamental question of money. Therefore I urge that this Committee recommend the continuance of this investigation next year.

Mr. IRVINE: I would just like to say a word. So far as I am concerned, I am merely a student of the subject. That is chiefly the reason why I introduced the resolution. I am not a propagandist in this regard. Until about five years ago, I did not have an opportunity to be a student of the financial situation, I know very little about it, and I have observed that few members of this Committee can speak with confidence on any of the fundamental points connected therewith. I would like to approach the subject in the attitude of a student, and not as a propagandist, and in that spirit, I am sure that the Committee will be prepared to meet me half way. I do not think that any of us wish to make any suggestions of speedy changes in a matter of this kind. At the same time I do not think that any of us would be prepared to assume the responsibilities which might come through our failure to make any change when changes are necessary. That is what has happened in the past; the world was not sufficiently prepared to make changes when they were necessary. We have allowed things to drift, I think. Conditions are moving faster than our minds. Wells says that the world is now engaged in a race between education and catastrophe. It has been that always, and catastrophe has won out. We are convinced that the race is still on, that catastrophe is moving towards the world, and in connection with the financial situation more particularly than in any other. The question is can we beat the game by getting enough knowledge, by working together and investigating in every quarter so as to ward off collapse. That was my idea in bringing forward the resolution, and I hope that in that spirit, in the spirit of students rather than in that of propagandists, we will continue the investigation.

The CHAIRMAN: After all, I cannot get away from the feeling that there are certain fundamental factors about banking and finance that are as eternal as the hills. Everybody works and produces something; he sells it, and the difference between what he gets and spends is what we call savings. These

savings go into the banks or elsewhere and belong to him. Then in actual fact all trade is but barter between individuals made easy by the measure or medium of money. The great problems of the world to-day are the huge national debts. One cannot see how Germany will ever be able to pay her internal debt, or France; and I sometimes wonder how Englishmen face the future with such confidence and faith. Our national debt is pressing severely upon us and consumes a very large part of our earnings. Even in the United States, rich as she is, debt and taxation are at the root of their problems. If we were rid of our war debts, conditions would improve and our problems that are serious would be forgotten.

MR. IRVINE: You are taking for granted what I would be disposed to challenge, and what I think the so-called modern school of financiers challenge. I am not saying that you are not correct in your assumption, but at least it is debatable. Let me give you one phase of the situation. The application of science to industry means this, if it means anything, that we are substituting mechanical energy for human energy, that we are increasing the output by the application of machinery; and if that is so, there will come a time when human work will count for even less than it counts now. There is your unemployment problem. Your unemployment problem is not only a permanent one, but one that is increasing with the application of science to industry. At the present time, the only possible way in which you can purchase anything is with the purchasing power which you receive on the faith of production, and with that decrease through the application of science, you naturally decrease your power of purchase which reflects upon the whole producing system. It is a problem which has come to us, which has grown up from conditions, and the question is how is it going to be met? That is only one phase of it. The further we go, the more acute becomes that problem, and the world has got to face it.

THE CHAIRMAN: Things are changing, I admit that. Reverting to local banks, I think everybody would be in favour of them if we felt that they would be stable institutions. So long as we have the branch bank system, I do not see how small local banks could live. Take the Northern Crown Bank of Winnipeg; I happened to be Minister of Finance when that bank applied for leave to merge. The bank was sound, they had money, but they could not safely loan it, and they were afraid of losing their deposits and their shareholders' money.

MR. GOOD: There is not a more stable institution in the world to-day, financially, than the co-operative movement in Great Britain, where they have retail societies, wholesale societies and manufacturing establishments.

THE CHAIRMAN: I believe in co-operation myself.

MR. GOOD: They have added to their activities a very large banking business, and the evidence that we had during the early years of the war as to the activities of the co-operative movement in regard to finance in Great Britain is absolutely unique. The Bank of England was asking 7 per cent, and the co-operative societies were able to loan money at between 3 and 4 per cent. Of course, that may have been just for a period.

HON. MR. STEVENS: There is nothing to hinder the duplication of that system here, under the existing laws and under existing conditions, providing the will to do it is there.

MR. GOOD: I think you are correct, but the late Hon. F. D. Monk made a vigorous effort to get through legislation in 1909, or thereabout, in this Parliament, to facilitate the organization of co-operative societies in Canada, and he failed through the activities of the Retail Merchants' Association. The Bill was passed in the Common but blocked in the Senate, and from that day to this—I presume owing to his sickness and death—nothing further has been done in that

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connection. It is true that under provincial legislation there are a number of societies of a limited nature existing at the present time, but they are not particularly satisfactory in the field of finance. In my judgment, one of the reasons why the small banks find it difficult to operate at the present time is that we have not a federal bank. Take a small isolated bank without any means of discounting, and so on, it can scarcely stand against the chartered bank. I think that the system is absolutely alright, but the conditions under which it might have to struggle into existence may be very difficult. I would recall in that connection that a number of the failures in Germany of the local and district banks were due to general economic conditions. That is the way it strikes me, and it is absolutely necessary to carry on reform along the lines of stabilizing price levels, as well as in banking, because if we have those great ups and downs, those panics, crises and depressions, to cure which I presume we will have to have some kind of international action, our banks are in jeopardy at any time and at all times.

The CHAIRMAN: They have good co-operative institutions in the United States, in Iowa, I think.

Mr. GOOD: They have not very much in the way of banking, I am not sure how much; but the banking business under the Federal law during the last ten years is very little. The Federal co-operative system has grown in the States, but there is nothing to equal its development in Europe.

The CHAIRMAN: It is easier to do it there or in countries which are thickly populated than in a large country like Canada with only eight million people.

Mr. GOOD: I grant that there are conditions that are more favourable in Europe than in Canada; on the other hand, a great many conditions in Canada are more favourable than those in Europe. I think we have a higher standard of education, and our general industrial efficiency is very much better. I simply want to mention this fact that those isolated losses and failures are no argument against the essential desirability of a federal system, but are due rather to other things. I am bound to add that I have had it intimated to me privately that some of our banks are in a hazardous condition which may be due to this periodic depression that has come on. We could not control the price level and we have this terrific upheaval such as we have had during the last few years, and I think all banking institutions are in danger. As I say, let us work along those lines.

Mr. IRVINE: Perhaps we had better not debate this. The idea is to know what we will do with the resolutions.

The CHAIRMAN: I will tell you what was in my mind. The Chairman has no right to draft a report. There might be a majority and a minority report, either of which should come from the Committee, but I will draft a report for the next meeting to cover your thought, Mr. Irvine, and I will in the meantime confer with you. At the next meeting of the Committee this draft might assist the Committee in reaching its conclusions. I think perhaps if we meet next Wednesday morning it would be satisfactory, and in the meantime perhaps Mr. McMaster's committee will have their report on rural credits and we might have an opportunity of looking at that.

The Committee adjourned until Wednesday, June 20, 1923, at 11 a.m.

DISCUSSIONS

WEDNESDAY, June 20, 1923.

The Select Standing Committee on Banking and Commerce met at 2.30 p.m., Hon. A. K. Maclean, the Chairman, presiding.

MR. IRVINE: Mr. Chairman, I have drafted a report, and I beg to move its adoption. I do not think that the report means very much for it simply recommends that we should carry on next year, and I presume that that would require another resolution in the House. But seeing that we have had an investigation to the extent we have had, and that we have not had time, or perhaps the inclination—I do not know which—to consider the evidence which has been presented, it seems to me that this is the only thing we can do. It perhaps amounts to a fairly respectable funeral ceremony, and we will bring the flowers next year if necessary; but I do not think we can do anything else now.

MR. WOODSWORTH: I beg to second the adoption of the report.

MR. GOOD: I would like to raise again the question as to the propriety of making a recommendation in connection with one of the matters brought before us under the Special Order of Reference; I refer to the stabilization of price level or the purchasing power of money. My reason for bringing this matter to the attention of the Committee is that there is to be an economic conference during the coming fall in which the various British Dominions will take part, and which is to be held, I think in the city of London, England. I am of the opinion that it would be entirely in order and very desirable now to make some representations through the Dominion Government to that conference to give seem to be anxious to have some suggestions as to what ought to be considered ence that took place between the British Government and the Canadian Government in regard to this conference, and I notice that in a communication from the British Government a request was made that topics for consideration should be suggested and sent forward by this Government. The British Government seem to be anxious to have some suggestions as to what ought to be considered, and I am strongly of the opinion that this is one matter that ought to receive consideration. When I mentioned the matter this morning, Mr. Chairman, you suggested that I could bring up the question when the report of the Committee was submitted to the House, but if that were done, it might seem that I was moving on my own initiative entirely and that the Committee was not in any sense behind me. Now, if the Committee were practically unanimous on this particular matter, it might have some value if it went to the House as a recommendation from the Committee rather than as a special opinion of my own. I would therefore, suggest the desirability of amending the report which has been moved by adding a clause such as I have outlined.

MR. GARLAND: I think there is a good deal in what Mr. Good has said in regard to this matter. I do know from a brief study of the situation that such eminent authorities as the Hon. Mr. McKenna, Sir Edward Hamlin, and Lord Milner have been writing and making speeches in connection with this important matter as well as upon the question of credit and credit control. I think they are turning their attention, rather directly at the present time to the question of the stabilization of price levels, and there is no doubt in my mind that that is a matter which should receive consideration at the coming economic conference.

THE CHAIRMAN: Mr. Good refers to the stabilizing of prices; you cannot discuss economics without considering the stabilizing of currency and prices in some countries. I suppose you have in mind, Mr. Good, Professor Fisher's theory.

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Mr. GOOD: I have. I think we ought to make a definite, concrete recommendation to the House which if adopted in the House might be carried forward to the conference.

Mr. MITCHELL: To what effect?

Mr. GOOD: That this question of the stabilizing of price level be a subject of consideration at the economic conference in October.

The CHAIRMAN: Do you not think it would be a little presumptuous on our part to suggest to that conference how they should discuss economic problems?

Mr. GARLAND: Are we not a nation?

The CHAIRMAN: We are just a Committee, and we do not understand Mr. Fisher's theory fully.

Mr. GOOD: Without committing ourselves in any respect to a method of securing that stabilization, I think we might agree on the desirability of it; I have heard no one question it at all.

The CHAIRMAN: Would we not make ourselves look cheap by suggesting something that would be bound to come up?

Mr. GOOD: I do not think it is at all certain to come up.

Mr. MITCHELL: We have not considered it fully.

Mr. GOOD: If it does come up it will receive only passing consideration. There are other topics of an entirely different character on the agenda and these may possibly occupy all the time.

The CHAIRMAN: Is the question of inflation and deflation on the agenda?

Mr. GOOD: No.

The CHAIRMAN: Not indirectly?

Mr. GOOD: Neither directly or indirectly, so far as I am acquainted with it.

Mr. IRVINE: It may be on the agenda of other countries which are to be represented there, but Canada has not an agenda so far.

Mr. GOOD: It seems to me that there would be nothing cheap or trivial about a recommendation of that sort. The matter has been referred to this Committee by Parliament this year, and we have heard one witness, a very distinguished witness, on that particular question. We have not discussed it in the Committee, but I think that from the evidence we have had submitted to us, we might at least unanimously agree upon the ideal to be sought after, and without committing ourselves in any way or making any recommendation as to the method of attaining it, put it up to the conference to consider ways and means of attaining what I think everybody admits is a most desirable end.

Mr. IRVINE: Let us take the sense of the Committee on the resolution, and then Mr. Good can move another.

Mr. GOOD: Before that is done, I am wondering whether or not this matter might be the subject of a further report from this Committee, or whether it should not properly be included in the report which has been presented, and to which I have no objection.

Mr. IRVINE: Move an amendment to this report and include your idea.

The CHAIRMAN: Mr. Irvine has moved that this be the report of the Committee.

Mr. GOOD: That does not preclude any further report?

The CHAIRMAN: No, that is understood.

Hon. Mr. STEVENS: Before you put the motion, may I just say a word or two in connection with it? I do not see any very grave objection to the report;

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in fact, as Mr. Irvine himself says, there is not very much to object to. But I wish to draw the attention of the Committee to a point which struck me when I first saw the report, and it is this: I do not think it is customary for a committee in making a report to Parliament to recommend that after prorogation, and at some future date or during the next session of Parliament, some motion should be made; for of course, this would require a motion next year whether the recommendation goes in the report or not. That is a new matter which will come up next year.

Mr. MITCHELL: It is a pious wish.

Hon. Mr. STEVENS: I had hoped that perhaps we might have done something more than that. We simply report the evidence; that is all we do, and I am rather a believer in sticking to what a thing really is rather than putting in some thing which is not really done. I think perhaps it would be desirable that instead of suggesting to Parliament that this matter be referred to a future session, we might suggest—and this would include what Mr. Good has in mind—that the Government be put in possession of the facts through Parliament and take any steps that it conceives to be necessary. That would involve two or three things. One would be a reference of one of these problems in the Canadian agenda to the economic conference to be held. But in the evidence there is a matter of far greater value to us as a country, than the study of that particular problem, and that is the big problem which is agitating the west in particular—and I must remind hon. members that it is a question not only affecting the western farmer but also the small producer all over Canada. That is the difficulty of getting low-priced or cheap interest loans. That question comes up, of course, particularly under rural credits, but it is a problem in itself, and in my opinion is one that the Government ought to take into consideration throughout the coming recess.

The CHAIRMAN: Remember that Mr. McMaster's Committee will have a report on that.

Hon. Mr. STEVENS: Surely, but that will deal strictly with rural credits, which is really only one phase of the problem. For instance, it has been mentioned that over and above the long term loans or the amortizing scheme of rural credits, is the necessity for immediate relief of the burden of debt resting on certain sections of the country. That is a problem also, that I think the Government should take into consideration.

Now, I would like to have in this report some such reference as that rather than merely suggesting that this whole problem should go over until next session, and that we should commence a new discussion of more or less abstract problems, because, after all, an abstract problem, while it may be most interesting and in some respects perhaps useful, I know of no great step in the way of progress or reform that is taken in one leap, abandoning one system for another. It is always by a gradual approach, by a change in the practical affairs, a change in existing conditions, step by step, that these things are brought about. That is my view, Mr. Chairman, and I cannot see any value in the suggestion of merely referring it to the next session of Parliament.

Mr. IRVINE: I certainly agree to a very large extent with the remarks of Mr. Stevens. As I see it, it is a matter of whether we shall have the faint hope of continuing our investigation or whether we shall take the suggestion of Mr. Stevens and put the whole matter up to the Government and leave it with the Government, in which case I really feel that nothing at all will be done. Still, perhaps we should not feel that way; we should have a little faith, and leave it to the Government to act. If the Committee feels that way, it would be better, perhaps, to move an amendment to include that, and if we take

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that ground I feel we should back up that request with a digest of the whole evidence given before this Committee to aid the Government in what it shall do. It was in order to save that trouble that I was willing to concede the weak report which has been moved. I quite agree it is weak; it means very little. It merely has the hope of our continuing next year.

Mr. MITCHELL: It seems to me that if the Government were to take action they would require more evidence than we have had. As far as I am concerned, I have listened to the evidence submitted here and I do not see how the Government or anybody else can act upon the evidence so far adduced; consequently it seems to me that the recommendation we make to Parliament to hold a further inquiry is the proper one. We should not put it up to the Government to do something that we do not think we could act upon ourselves.

The CHAIRMAN: Mr. Stevens, it is to be remembered also that we have been dealing with abstract things. If we had been dealing with rural credits or something of that kind, we might have had a concrete problem before us.

Mr. IRVINE: If we had the assurance of a further inquiry, what we are doing is the proper course—

Mr. MITCHELL: It seems to me that we acknowledge we are not ready to act ourselves, and therefore we should not ask the Government to act.

Mr. IRVINE: But I also see the weakness of the position as pointed out by Mr. Stevens—

The CHAIRMAN: Gentlemen, you have heard the drafted report as suggested by Mr. Irvine—

Mr. GOOD: Mr. Chairman, before the question is put, I think an amended report might be drafted, if we had an adjourned meeting of this Committee, which would be a compromise between the present one and Mr. Stevens' suggestion. I do think that if anything of a concrete character is recommended—and certainly my suggestion is concrete enough—

The CHAIRMAN: Mr. Good, why do you not bring it up in Parliament and urge the Government to name a representative to go into these things, the stabilization of credits, and so forth—?

Mr. GOOD: I certainly will if there is no other way, but this Committee has taken the matter up and I think that if the matter were left open we might amend that report and bring it up at a subsequent meeting.

The CHAIRMAN: We will see how you get along in Parliament, and if necessary we will call another Committee meeting. Gentlemen, shall this motion of Mr. Irvine's constitute the report of the Committee?

Motion carried.

The Committee adjourned sine die.

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